

**INVESTMENT MANAGER GUIDELINES**  
**FIXED INCOME GENERAL PARTNERSHIP II**  
**OF THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL AND ROTARY INTERNATIONAL**  
Adopted June 2001

The following guidelines have been developed to be used in the management of the Fixed Income 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.
- Initiating written communication with the Partnership whenever the investment manager believes the guidelines should be changed.

**Guidelines**

*Diversification*

- The portfolio is to be diversified in a manner to reduce the impact of large losses in individual securities.
- Single issuers are limited to 5% of the portfolio's market value with the exception of U.S. government and agency securities and the government and agency issues of the following countries: Japan, Germany, U.K., France, Canada, Switzerland, Australia, and the Netherlands.
- Managers may make use of their pooled funds to gain access to the various sectors of the bond market.
- Managers may not invest in non-exchange traded real estate investment trusts.

*Maturity and Duration*

The managers are responsible for determining the maturities of individual fixed-income securities within the portfolio. The overall portfolio duration will not deviate from the duration of the Lehman Brothers Aggregate Bond Index by more than +/- 1.5 years.

## *Quality*

Note: Split-rated notes will be governed by the highest rating.

- The average credit quality of the portfolio shall be at least A/A2.
- No more than 15% of the portfolio (as measured by market value) shall be invested in securities rated below BBB-/Baa3. No issues below B-/B3 are allowed except as provided below.
- No more than 5% of the portfolio (as measured by market value) may be invested in securities not rated by any of the four major rating agencies (Moody's, Duff & Phelps, Standard & Poor's, and Fitch). Unrated securities of the U.S. Treasury and Government agencies are permissible investments. The manager is responsible for determining an appropriate credit rating for unrated securities for purposes of guideline compliance.
- If a bond held in the portfolio is downgraded to a quality not permitted herein, the investment manager may continue to hold the bond(s) at his discretion, provided that (1) the market value of the bond(s) do(es) not exceed 3% of the portfolio, (2) the manager has complied with all other quality requirements, and (3) the manager submits a letter stating his reason(s) for holding the bond(s). If the bond's value does exceed 3% of the portfolio, the manager must liquidate sufficient holdings to reduce the position to less than 3% within 30 days.

## *Non-U.S. Dollar Securities*

No more than 20% of the portfolio (as measured by market value in U.S. dollars) shall be invested in non-U.S. dollar denominated bonds. Included in this limitation is a maximum allocation of 5% to emerging market fixed-income securities as defined as markets outside the Salomon Brothers World Government Bond Index.

## *Derivatives and Other Securities*

- Futures, options, forwards and swaps may be used only if 1) the manager deems the vehicle more attractive than a direct investment in the underlying cash market; 2) to manage or hedge portfolio risk; and/or 3) to take advantage of expected changes in volatility and/or the shape of the yield curve.
- Futures, options, forwards and swaps may not be used to increase the portfolio's risk profile greater than the manager could otherwise do by investing in the underlying physical securities. Under no circumstance may these instruments be used to leverage the portfolio.
- The managers may make use of currency futures and forward contracts to hedge the existing currency risk in the portfolio.
- The managers may invest up to 30% of the portfolio in privately placed securities, with a maximum of 15% in non-Rule 144(a) securities.

## **Performance Measurement Standards**

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

- exceed the rate of return of the Lehman Brothers Aggregate Bond Index
- rank in the upper third of the consultant's core fixed income manager universe

## **Reporting Requirements**

Within four weeks after the end of each calendar quarter, each 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.

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 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.