

TRUSTEES OF THE PUBLIC LIBRARY
OF THE CITY OF BOSTON
Investment Policy Statement
As Amended March 2012

INTRODUCTION

This policy statement is issued by the Trustees of the Public Library of the City of Boston (the "Trustees"), for the guidance of the Trust Section, fund managers and other fiduciaries, in the course of investing the trust funds (the "Fund") of the Trustees. The purpose of the policy is to express the Trustees' position regarding the asset mix of the Fund; set forth an appropriate set of objectives for the investment of the Fund's assets; and define guidelines within which the investment managers may formulate and execute their investment decisions.

The Trustees hereby adopt this Investment Policy Statement (the "Policy"), which supersedes and replaces all prior Policies and which will be incorporated into all existing and any future Investment Manager Agreements (IMA). The Trustees rely on the recommendations of the Finance and Audit Committee (the "Committee") in adopting this Policy.

This Policy is issued for the guidance of fiduciaries, including the Trustees and investment managers, in the course of investing the assets of the Fund. The investments of the Fund will be made for the exclusive benefit of Fund's beneficiaries.

Policy guidelines may be amended by the Trustees both upon their own initiative and upon consideration of the advice and recommendations of the investment managers, fund professionals, and the Committee. Proposed modifications should be documented in writing to the Committee.

GOALS AND OBJECTIVES

Assets of the Fund shall be invested to ensure that principal is preserved and enhanced over time, both in real and nominal terms.

Return Goals:

1. Total return, consistent with prudent investment management, is the primary goal of the Fund. Total return, as used herein, includes income plus realized and unrealized gains and losses on Fund assets.
2. Secondly, the total return for the overall Fund will be compared to a universe of similar public funds. The Fund should rank in the top half of a universe of similar public funds over a full market cycle.

Risk Goals:

1. Total portfolio risk exposure of the Fund will be regularly evaluated in order to ensure that excessive risk is not being taken to achieve return goals.
2. Risk-adjusted returns are expected to rank in the top half of a universe of similar public funds.

The Trustees are aware that there may be deviations from these goals. Normally, results are evaluated over a three to five-year time horizon, but shorter-term results will be regularly reviewed and corrective action will be taken if in the best interest of the Fund.

INVESTMENT GUIDELINES

The overall capital structure targets and permissible ranges for eligible asset classes are detailed in Appendix I. Full discretion, within the parameters of the guidelines described herein, is granted to the investment managers regarding the asset allocation, the selection of securities, and the timing of transactions. Investment manager benchmarks are specified in Appendix II. If required, more specific guidelines or exemptions for each manager are also provided in Appendix II.

Investment Vehicles

1. The Trustees recognize the benefits of commingled funds and mutual funds as investment vehicles (i.e., the potential for increased diversification and for fee efficiencies). As such, the Trustees may choose to invest in such vehicles if it is deemed prudent and appropriate by the Trustees.
2. The Trustees recognize that it cannot give specific policy directives to commingled funds and mutual funds; therefore, the Trustees are relying on the Investment Consultant to assess the investment policies of any commingled funds used by the Fund to ascertain whether they are appropriate.
3. For those managers that manage assets through direct investments (i.e., separate accounts), the guidelines and/or exemptions are specified in each approved Investment Manager Agreement (IMA). Should there be conflicts between this Policy and the IMA, the IMA supersedes the Policy guidelines.

Equity Managers

1. Domestic equity investments are permitted, subject to the guidelines reflected in Appendix I. American Depository Receipts (ADRs), which are dollar denominated foreign securities traded on the domestic U.S. stock exchanges (e.g., Reuters, Nestle, Sony) may be held by each domestic stock manager, up to 1.5X the appropriate manager benchmark.
2. International equities are permitted, subject to the guidelines reflected in Appendix I. Generally defined, the Morgan Stanley EAFE Index represents the opportunity set for international developed markets. The Morgan Stanley Emerging Markets Free Index represents the opportunity set for international emerging markets. These index references are guidelines and do not prohibit investment in securities outside those indexes.
3. Equity managers may hold a maximum of 10% cash at any one point in time.
4. The maximum weight of the stock of any one company at the total portfolio level is 5% at market. Individual manager portfolios may hold no more than 8% at market of any single company's stock, or 1.5X of the manager's benchmark weight, whichever is greater.

Fixed Income Managers

1. Domestic fixed income investments are permitted, subject to the guidelines reflected in Appendix I. Yankee bonds, which are dollar denominated foreign securities, may be held by each domestic fixed income manager in proportions which each manager shall deem appropriate.
2. For Domestic fixed income managers, the Barclays Capital U.S. Aggregate Bond Index will represent the benchmark, but managers will be permitted to invest in securities outside of the index assuming they are of a suitable credit quality and appropriate for the outlined mandate.
3. International fixed income securities are permitted, subject to the guidelines reflected in Appendix I. Generally defined, the Citigroup World Government Bond Index represents the opportunity set for international developed markets. The J.P. Morgan Emerging Markets Bond Index-Global represents the opportunity set for international emerging markets. These index references are guidelines and do not prohibit investment in securities outside those indexes.
4. The overall average quality of the investment grade fixed income portfolio shall be "A" or better as rated by Standard and Poor's, or its equivalent in Moody's, Fitch, or Duff & Phelps. The ratings provided in this Policy are for guidance only; the investment managers are responsible for making an independent analysis of the credit worthiness of securities and their suitability as investments regardless of the classifications provided by rating agencies.
5. The average duration (interest rate sensitivity) of an actively managed fixed income portfolio shall range within +/- 2 years of the benchmark's duration.
6. For domestic fixed income portfolios, the securities of an individual issuer, excepting the U.S. government and U.S. government agencies, shall not constitute more than 5% of an investment manager's portfolio at any time.

Global Asset Allocation Managers

1. The purpose of the global asset allocation mandate is to retain managers that attempt to preserve capital and obtain returns by taking advantage of perceived imbalances in the prices of various asset classes including various categories of equities, fixed income, commodities, currencies, and cash. The general asset class benchmark for this allocation is 60% MSCI World / 40% Citi WGBI but individual managers will have specific benchmarks.

Social Screens

1. The Trustees will attempt to hire managers which incorporate social screens if prudent and appropriate. The Trustees agree that investments in certain asset classes (i.e., absolute return and global asset allocation), as well as investments in certain investment vehicles (i.e., mutual funds and commingled funds) may not incorporate social screens.

Active Management

1. Investment managers will be expected to actively manage most of the investments entrusted to them by the Fund, although some portion of the Fund may be invested in passive vehicles such as index funds. Some investment managers offer Social

Screens for passively managed funds, and the Trustees will make best efforts to hire these managers if deemed prudent and appropriate.

DERIVATIVES POLICY

Where appropriate, investment managers may be given permission to use derivative securities for the following reasons:

1. *Hedging.* To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.
2. *Creation of Market Exposures.* Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.
3. *Management of Country and Asset Allocation Exposure.* Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for these purposes.

Additional uses of derivatives shall be approved by the trustees to implementation and shall be restricted to those specific managers.

INELIGIBLE INVESTMENTS

Unless specifically approved by the Trustees, certain securities, strategies and investments are ineligible for inclusion within this Fund's asset base. Among these are:

- Privately-placed or other non-marketable debt, except securities issued under Rule 144a,
- Lettered, legend or other so-called restricted stock,
- Commodities,
- Short sales,
- Direct investments in private placements, real estate, oil and gas and venture capital, or funds comprised thereof,

However, the Trustees reserve the right to establish mandates, from time-to-time, in some of the investment strategies listed above when deemed appropriate in meeting the overall Fund's objectives.

OTHER GUIDELINES

Rebalancing Goals and Procedures

The current asset allocation of the Fund will deviate from the strategic asset allocation target due to differences in market returns and the actions of the asset allocation managers. The allocation will be evaluated on a quarterly basis at a minimum and the Committee will re-balance the Fund whenever the allocation reaches the limits of the target ranges unless conditions exist that make it imprudent to do so at that time. Conditions that may warrant a delay in re-balancing include, but are not limited to, a pending change in strategic asset allocation or a pending change in an investment manager. Exceptions to the rebalancing rules should be rare.

Proxy Voting

Responsibility for the exercise of ownership rights through proxy solicitations shall rest primarily with the investment managers, who shall exercise this responsibility strictly for the benefit of the Fund and its beneficiaries. However, the Trustees maintain the option to vote proxy solicitations if they choose to do so, even if the Trustees' vote directly opposes that of the investment manager.

ROLES AND RESPONSIBILITIES

Trustees

The Trustees, with the assistance of the Committee, shall manage the total investment program. The Trustees, with the assistance of the Investment Consultant, are responsible for:

- Determining the Investment Policy;
- Setting the asset allocation targets and ranges and defining the permissible investments;
- Hiring and terminating investment managers and consultants.

Committee

The Committee is responsible for:

- Review investment goals and objectives annually and make recommendations to the Trustees regarding the Investment Policy, including asset classes and targets;
- Provide the initial assessment on hiring of new managers;
- Negotiate and evaluate all fees associated with the Fund;
- Evaluate performance, monitor risk, and take corrective action when required;
- Provide direction to Library Management to implement and maintain the Trustees Investment Policy.

Investment Consultant

The Investment Consultant shall assist the Trustees and the Committee in fulfilling their fiduciary duties as described above. In addition the consultant shall:

1. Ensure that the investment managers are compliant with all aspects of the investment policies and guidelines.
2. Ensure that the Trustees and the Committee are receiving the maximum services at reasonable costs.
3. Provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues.
4. Be proactive in recommending new asset classes, strategies, and managers and shall provide any educational materials to support the proactive recommendations.
5. Act to support the Trustees and the Committee in all aspects of managing the investment program.

The Trustees and the Committee expect independent and objective advice from the consultant. As such, the consultant shall disclose any and all financial relationships with investment managers, broker/dealers, custodian banks, or other entity that may appear to represent a conflict-of-interest.

Investment Managers

The duties and responsibilities of each of the investment advisors retained by the Committee include:

1. Managing the assets under its management in accordance with the Policy and objectives expressed herein.
2. Meeting or exceeding the manager specific benchmarks expressed in Appendix II.
3. Complying with all provisions pertaining to the investment manager's duties and responsibilities as a fiduciary. Fund assets shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of Fund assets.
4. Using best efforts to ensure that portfolio transactions are placed on a "best execution" basis and to minimize overall trading costs.
5. Exercising ownership rights, where available, through proxy solicitations, doing so strictly for the economic benefit of the Fund.
6. Meeting with the Committee upon request of the Committee.
7. Acknowledging in writing to the Committee the investment manager's intention to comply with this Policy as it currently exists or as modified in the future.

Custodian Bank

The custodian bank is the foundation upon which the entire operation of the investment program rests. The custodian bank will be responsible for performing the following functions:

1. Accept daily instructions from designated investment staff.
2. Immediately advise investment staff of additions or withdrawals from account.
3. Notify investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings.
4. Resolve any problems that investment staff may have relating to the account.
5. Safekeeping of securities.
6. Collection of interest and dividends.
7. Daily cash sweep of idle principal and income cash balances.
8. Processing of all investment manager transactions.
9. Collection of proceeds from maturing securities.
10. Disbursement of all income or principal cash balances as directed.
11. Providing monthly statements by investment account and a consolidated statement of all assets.
12. Working with the managers, Investment Consultant, and Library Management to ensure accuracy in reporting.
13. Managing the securities lending program.

POLICY REVISIONS

It is the intent of the Trustees to revise this Policy to reflect modifications and revisions to the Fund, which may develop from time to time. It is also the policy of the Trustees to review these goals and objectives at least once per year and to communicate any material change to the Investment Consultants and Fund Managers.

This Policy statement is prepared to provide appropriate guidelines for the investment managers, consistent with the Fund's return objectives and risk tolerances. Should any investment manager believe that the guidelines are unduly restrictive or inappropriate, the Committee expects to be advised accordingly.

STANDARD OF INVESTMENT PERFORMANCE

Performance of the Fund will be evaluated on a regular basis. Consideration will be given to the degree to which performance results meet the goals and objectives as herewith set forth. Toward that end, the following standards will be used in evaluating investment performance.

1. The compliance of each investment manager, consultant, broker/dealer, and custodian bank with the guidelines as expressed herein.
2. The extent to which the total rate of return performance of the Fund achieves or exceeds the targeted goals.

IMPLEMENTATION

All monies invested for the Fund by its investment managers after the adoption of this Policy shall conform to this Policy. The foregoing Policy was last updated by the Trustees of the Public Library of the City of Boston at its meeting held on March 13, 2012 at the recommendation of the Trustees Finance and Audit Committee.

Signed: _____

Title: _____

APPENDIX I

PUBLIC LIBRARY OF THE CITY OF BOSTON

CURRENT ASSET ALLOCATION POLICY

In order to have a reasonable probability of achieving the target return at an acceptable risk level, the Committee has adopted the asset allocation policy outlined below. The actual asset allocation will be reviewed on a quarterly basis and will be readjusted when an asset class weighting is outside its target range.

<u>ASSET CLASS</u>	<u>TARGET %</u>	<u>TARGET RANGE %</u>	<u>TARGET BENCHMARK</u>
EQUITY	60	55-65	
Domestic Equity			
<i>Large Capitalization</i>	<i>50</i>	<i>15 – 21</i>	S&P 500
<i>Small Capitalization</i>	<i>10</i>	<i>10 – 14</i>	Russell 2000
FIXED INCOME	40	35-45	
<i>Domestic – Core</i>	<i>40</i>	<i>35-45</i>	Barclays Aggregate
CASH	0	0 – 10	90-Day T-Bill

PROPOSED ASSET ALLOCATION POLICY (NOT YET ADOPTED)

<u>ASSET CLASS</u>	<u>TARGET %</u>	<u>TARGET RANGE %</u>	<u>TARGET BENCHMARK</u>
EQUITY	45		
<i>Domestic - Large Capitalization</i>	27	20 – 35	<i>S&P 500</i>
<i>Domestic - Small/Mid Capitalization</i>	8	4 – 12	<i>Russell 2000</i>
<i>International</i>	10	5-15	<i>MSCI EAFE</i>
FIXED INCOME	35		
<i>Domestic - Core</i>	35	30-40	Barclays Aggregate
GLOBAL ASSET ALLOCATION			
<i>GAA</i>	10	3-17	Manager Specific
ABSOLUTE RETURN			
<i>Absolute Return</i>	10	5-15	Manager Specific
CASH	0	0 – 10	90-Day T-Bill

APPENDIX II

PUBLIC LIBRARY OF THE CITY OF BOSTON

INVESTMENT MANAGER PERFORMANCE GUIDELINES

Individual Managers are expected to consistently use their best efforts to outperform their benchmark and peer group on a total return basis over 3-5 year time periods. The universe measurement system is the Independent Consultants Cooperative (ICC) system. Universe comparison groups (i.e. "Total Fund Universe") and manager peer groups (i.e. "large cap") are constructed from the ICC performance measurement database.

Asset Class	Index	Peer Group Universe
Domestic Equities	S&P 500, or as dictated by strategy	All -Cap Core, or as dictated by strategy
Global Asset Allocation	As dictated by strategy	N/A
International Equities	MSCI EAFE	International Equity
Emerging Equities	MSCI EM	Emerging Equity
Core Fixed Income	Barclays Capital Aggregate	Core Bonds
Absolute Return	As dictated by strategy	N/A
Cash	90 Day T-Bills	Money Market Database or Active Cash