

**THE WALLACE FOUNDATION
INVESTMENT POLICY**

Amended as of January 13, 2012

1. INVESTMENT GOAL

The investment goal of The Wallace Foundation (the Foundation) is to earn a total return that will provide a steady stream of income to fund the grant making and operations of the foundation in support of its mission while preserving the real or inflation-adjusted value of the Foundation's total investment assets (the Total Portfolio) over long periods of time.

In an effort to meet this goal, the Foundation maintains a diversified Total Portfolio that is invested in various asset classes and investment styles. As a prudent investor, the Foundation's asset allocation plan considers the investment standards provided by government authorities and takes into account: general economic conditions; the possible effect of inflation or deflation; the expected tax consequences of investment decisions or strategies; the role that each investment or course of action plays within the overall investment portfolio of the Foundation; any special relationship or value of an investment to the mission of the Foundation; the expected total return of the portfolio, including both income and appreciation of investments; other resources of the Foundation; and the Foundation's needs to make distributions and preserve capital.

2. INVESTMENT SUPERVISION

As described in the Foundation's Investment Committee Charter, the Investment Committee oversees the management of the Foundation's investment assets assisted by the Foundation's staff. The Foundation's Investment Committee and staff seek to manage and invest the Foundation's assets in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In fulfilling these responsibilities the Foundation: conducts regular reviews of its investment policy, asset allocation and investment risks to ensure they are appropriate; meets regularly with each of its investment managers to ensure they are managing the Foundation's assets appropriately; conducts regular reviews of the Foundation's investment fees and expenses to ensure they are reasonable and appropriate; and makes reasonable efforts to verify facts relevant to the management and investment of the Foundation's assets.

3. INVESTMENT RETURN OBJECTIVES

A. Total Portfolio Objectives

The primary long-term investment objective of the Total Portfolio is to generate a return net of all investment management fees that equals or exceeds the Consumer Price Index Plus 5.0% over rolling three to five year periods. This return will enable the Foundation to meet its mandated distribution requirements, while still maintaining the purchasing power of its principal holdings. The returns on the Foundation's investments will be evaluated on a total return basis, including both income and capital appreciation.

An additional long-term objective is to exceed an Asset Allocation Rate of Return. This benchmark is calculated by the Foundation's performance measurement service using a weighted average of the benchmarks for each of the Foundation's asset classes in proportion to the Foundation's holdings in each asset class.

A further long-term objective is to exceed the average performance of a group of similarly managed private foundations. The benchmark for this objective is the Cambridge Associates Foundation Median.

3. **INVESTMENT RETURN OBJECTIVES (continued)**

B. Investment Manager Market Index Objectives

The Foundation's investment managers are expected to exceed or equal the Market Index benchmarks for their respective asset classes, as shown below, over rolling three to five year periods. Temporary underperformance during shorter periods is permitted recognizing that investment styles are not always in favor with the market.

Equity Asset Classes	Index
Stocks	
U.S. Large Cap	S&P 500
U.S. Small Cap	Russell 2000
International	MSCI EAFE
Emerging Markets	MSCI Emerging Markets
Public Inflation Hedges	
Energy	Russell 3000 Energy
Natural Resources	S&P Natural Resources
Commodities	Dow Jones UBS Commodity Total Return
Real Estate	NAREIT
Hedge Funds	HFRI Fund of Funds
Private Equity	S&P 500 Plus 2.5%
Private Inflation Hedges (Private Energy & Private Real Estate)	

Fixed Income Asset Classes	Index
Bonds	
Government/Credit	Barclays Capital U.S. Government/Credit
U.S. Long-Term Treasury	Barclays Capital U.S. Long-Term Treasury
U.S. Treasury Inflation-Protected Securities (TIPS)	Barclays Capital U.S. TIPS
Cash	Bank of America 91 Day Treasury Bill

3. INVESTMENT RETURN OBJECTIVES (continued)

B. Investment Manager Market Index Objectives (continued)

The Foundation's Market Stock, Bond and Hedge Fund managers will also be evaluated in comparison to the performance of other managers of similar investment styles and strengths, using indexes provided by Cambridge Associates or Mercer Investment Consulting.

The Foundation's Private Equity managers will also be evaluated in comparison to the performance of other Private Equity managers with similar investment strategies and vintage years, using indexes provided by Cambridge Associates or Venture Economics.

4. ASSET ALLOCATION OBJECTIVES

A. Total Portfolio

To achieve the Foundation's Investment Goal and Investment Return objectives, the Foundation's Total Portfolio is primarily invested in equities, as that asset class has historically provided the highest long-term returns. The Foundation's Total Portfolio also maintains significant holdings of high quality, noncallable intermediate- and long-term bonds to provide a hedge against deflation and produce a dependable stream of income. The Foundation's Equity and Fixed Income asset classes are provided in Section 3.B.

Recognizing that relative valuations of equity and fixed income markets vary over time, the Foundation has established asset allocation ranges that enable the Foundation to make tactical asset allocation decisions and permit temporary market fluctuations to occur without requiring an immediate rebalancing of the Foundation's Total Portfolio. The asset allocation ranges for the Foundation's Total Portfolio are provided below.

Asset Class	Asset Allocation Range
Equity	70% to 90%
Fixed Income	10% to 30%

If the asset allocation ranges noted above are pierced, the Foundation will rebalance the portfolio within 90 days unless otherwise directed by the Investment Committee.

The Foundation conducts asset allocation analyses designed to appropriately diversify the Total Portfolio on a regular basis.

4. ASSET ALLOCATION OBJECTIVES (continued)

B. Specific Investment Managers

The Foundation invests in equity managers and fixed income managers with complementary styles or strengths within their respective asset classes. This diversifies the Foundation's holdings within asset classes and reduces the volatility of investment returns. These investments may be made in separate accounts under custody with the Foundation's custodial trustee or in mutual funds and private investment funds, including limited partnerships and commingled funds.

To meet the asset allocation objectives described in Section 4.A., the Foundation requires fixed income managers to remain fully invested in fixed income securities or cash and equity managers to remain primarily invested in equities. Fixed income managers are limited to fixed income securities and cash because their role is to provide a hedge against deflation and produce income. The Foundation permits its equity managers to invest up to 10% of the Foundation's accounts in cash equivalents, recognizing these managers may not find sufficient stocks that meet their investment process selection criteria at all times.

5. ASSESSING INVESTMENT RISK

The Foundation regularly assesses its Total Portfolio for the risks identified below by conducting the reviews described:

A. Valuation

Reviews the pricing procedures and valuation policies used by the Foundation's investment managers and custodial trustee before accepting a reported value as fair value, and classifies its investments in a fair value hierarchy that conforms to the guidance provided by the Financial Accounting Standards Board (FASB).

B. Due Diligence

Conducts due diligence meetings with the Foundation's investment managers to review their investment staffs, strategies, performance and valuation policies and procedures. The Foundation also inquires about the service providers, including auditors, prime brokers, fund administrators and custodial trustees, for the Foundation's private investment funds as part of its due diligence process.

C. Liquidity

Reviews the liquidity of the Total Portfolio to ensure the Foundation has the ability to meet its cash needs for grants, expenses and capital calls. As part of this review, the Foundation continuously monitors its private investment fund holdings, distributions and future commitments.

D. Leverage

Prohibits the use of leverage in the Foundation's separate accounts and monitors the leverage used by the private investment funds in which the Foundation invests.

5. ASSESSING INVESTMENT RISK (continued)

E. Derivatives

Permits several of its separate account managers to invest, within prescribed limits, in U.S. Treasury and other financial futures and options and to sell securities not yet purchased for hedging purposes and to manage the asset allocation and duration of the fixed income portfolios. The Foundation also permits its separate account managers that invest in marketable securities denominated in foreign currencies to invest, within prescribed limits, in foreign currency futures, options and forwards for currency hedging purposes.

Monitors the exposure to these and other derivatives, such as interest rate and credit default swaps, in the private investment funds in which it invests.

F. Counterparties

Inquires about the credit quality of the counterparties used by the Foundation's managers and conducts an independent check against S&P and Moody's ratings for these firms.

G. Securities Lending

Does not permit securities lending in its separately-managed investment accounts and inquires about the securities lending activities of its private investment funds.

H. Currency

Monitors the currency exposure in the Foundation's separate accounts and private investment funds.

6. INVESTMENT RISK LIMITS FOR MANAGERS

In accomplishing the investment return objectives detailed in Section 3 the Foundation’s managers are subject to the risk limitations (as defined by credit quality) listed below:

A. For Bond Managers

Type	Description	S & P Rating	Moody’s Rating
Bond Manager Accounts	Minimum average quality including all plus or minus permutations	A	A
Individual Securities	Minimum quality at purchase including all plus or minus permutations	BBB	Baa
High Yield Mutual Funds	Minimum average quality of the fund including all plus or minus permutations	BB	Ba
High Yield Mutual Funds	Minimum quality of each security at purchase including all plus or minus permutations	B	B
Bankers’ Acceptances & Commercial Paper	Minimum quality of issuer at purchase	A-1	P-1
Certificates of Deposit	Minimum quality of Commercial Bank issuer at purchase	A	A

The Foundation’s Bond Portfolio is diversified with respect to type, industry, and issuer in order to minimize risk exposure. Obligations issued or guaranteed by the U.S. Government may be held without limitation. The Foundation monitors the weighted average duration of its Bond Portfolio on a regular basis.

6. **INVESTMENT RISK LIMITS FOR MANAGERS (Continued)**

B. For Cash Managers

Type	Description	S & P Rating	Moody's Rating
Cash Manager Accounts	Minimum quality of the account including all plus or minus permutations	AA	Aa
Individual Securities	Minimum quality at purchase including all plus or minus permutations	A	A
Bankers' Acceptances & Commercial Paper	Minimum quality of issuer at purchase	A-1	P-1
Certificates of Deposit	Minimum quality of Commercial Bank issuer at purchase	A	A

C. For Equity Managers

The Foundation's Equity Portfolio is invested with managers that have distinct and different investment philosophies, which is expected to reduce the risk of the Equity Portfolio.

The investment risks that equity managers assume can be aggregated into two classes, security selection risk and market sensitivity risk, as described below.

Security Selection Risk for Separate Account Managers

Security selection risk arises from an account's divergence from the overall stock market with respect to such attributes as financial characteristics, market technical characteristics, size of the companies owned, industry diversification and individual stock characteristics. Control of selection risk allows for adequate diversification of equity accounts and prevents investment managers from taking the risks associated with undue concentrations. The Foundation will assign security selection limitations for each separate account equity manager and will monitor each account closely for: adherence to these guidelines; consistency of investment philosophy; and returns relative to objectives. Limitations will also be placed on the maximum exposure to any one security or industry. Fixed income or cash investments by the Foundation's equity managers are generally limited to a maximum of 10%. Higher allocations to fixed income and cash by the Foundation's equity managers are only permitted with the written consent of the Foundation.

6. INVESTMENT RISK LIMITS FOR MANAGERS (Continued)

C. For Equity Managers

Market Sensitivity Risk

The beta coefficient for the Foundation's Marketable U.S. Large Cap, U.S. Small Cap and International Stock Portfolios relative to their respective benchmarks shown in Section 3.B. are expected to be less than or equal to 1.1. Because the Foundation is diversified across various investment management styles and security types, individual investment managers are encouraged, within the guidelines above, not to diversify beyond their own areas of expertise.

7. SECURITY SELECTION LIMITS FOR MANAGERS

A. The Foundation's separate account managers are prohibited from purchasing securities that will create unrelated business taxable income as defined in Section 512 of the Internal Revenue Code of 1986, as amended. This precludes the acquisition of debt financed property including the purchase of securities on margin. However, the Foundation may invest in private investment funds in strategic asset classes that are expected to increase the Foundation's investment returns and portfolio diversification, including Private Equity, Private Real Estate, Private Energy and Hedge Funds, that may generate unrelated business taxable income. The Foundation monitors the unrelated business taxable income generated by the private investment funds in which it invests on a regular basis.

B. Investment managers are prohibited from investing in any securities which would jeopardize the tax-exempt status of the Foundation as defined in Section 4944 of the Internal Revenue Code of 1986, as amended.

C. The Foundation's separate account managers are prohibited from purchasing non-marketable private placements due to their illiquidity. The Foundation monitors the holdings of non-marketable private placements in its private investment funds.

8. PROXY VOTING

Investment managers will vote proxies for the Foundation in accordance with their respective proxy voting policies.

The Foundation reviews quarterly reports from each of its separate account managers that describe the proxies voted on the Foundation's behalf for the quarter and year-to-date and reviews the proxy voting policies of each of its separate account managers annually.

9. DIRECTED BROKERAGE COMMISSIONS

Managers are permitted to direct brokerage commissions on their own behalf provided that they have verified that the Manager’s directing of commissions:

- Will not hamper the Manager’s ability to secure the best execution of trades.
- Will fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934. The safe harbor is available only if the Manager has determined in good faith that such amount of commission was reasonable in relation to the value of the brokerage and research services provided by the broker or dealer. Research services are defined as advice regarding the value of securities, the advisability of investing in securities and their availability, and reports on companies, industries, economic trends, portfolio strategy recommendations, and performance measurement services.

Managers are further required to submit quarterly reports which describe the uses of any directed brokerage commissions generated for the Foundation’s accounts.

10. CUSTODIAL TRUSTEE AND PERFORMANCE MEASUREMENT FUNCTIONS

- A.** The Foundation will retain an independent firm to provide custodial trustee services for its separate accounts, which include maintaining records of assets held, executing trades for investment managers and collecting interest and dividends. The custodial trustee will provide monthly reports of assets held, security transactions, income and tax-based capital gains to the Foundation.
- B.** The Foundation will also retain an independent firm to provide performance measurement services, which include independent calculation of investment manager returns, comparisons to indexes and the calculation and review of relevant portfolio characteristics.

11. WITHDRAWALS

Withdrawals from the Foundation’s accounts may be made at the request of representatives of the Foundation, as authorized by the Foundation’s Investment Committee.

12. INVESTMENT AGENT NOTIFICATIONS TO THE FOUNDATION

The Foundation’s investment agents are obligated to suggest and support revisions to their respective guidelines when they conclude that these guidelines may adversely affect their account’s performance. Additionally, the investment agents are required to inform the Foundation of any material change in their fundamental investment philosophy, ownership, organizational structure, professional personnel, or account structure.