

POISE Foundation
Finance and Investment Committee
Investment Policy

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Preamble

The purpose of POISE Foundation (the Foundation) is to create, grow, and maintain a permanent source of funds to be used to support the Black community primarily in the city of Pittsburgh, PA as well as those areas as designated by donors.

The Board of Trustees and management of the Foundation have a fiduciary responsibility to maintain and enhance the financial stability in the present and the future. Accordingly, even the legally unrestricted funds of the Foundation are held by the corporation as a steward for the sake of carrying out its mission and purposes. Assets of the Foundation can be increased in two ways: contributions and income/growth from investments. The following objectives will address the latter in relation to the overall sense of stewardship.

Delegation

The Board of Trustees has delegated supervisor rights to its Finance and Investment Committee (the Committee) of the Board. This Committee is responsible for overseeing the investment activities of the Foundation and regularly reporting on the investments to the full board. While performing its investment responsibilities, the Finance and Investment Committee and its designees will act in accordance with the policies as set forth herein, as well as any laws and regulations as set forth by governing bodies and jurisdictions that affect the Foundation. The Board reserves its full rights to revise the policies at any time.

The Board and its Finance and Investment Committee shall reserve the right to engage external assistance as deemed necessary. Such assistance shall include the services of an investment counselor and/or an Investment Advisory Board. Any external agents shall report directly to the Finance and Investment Committee and shall be bound to the policies and procedures as set forth herein.

Objectives

The primary investment objective of the Foundation, is to protect and preserve its existing assets while achieving an acceptable return on investments that will provide an adequate level of growth to sustain the endowments as well as provide an income base to support the grants and operations of the Foundation. At the same time, it is the duty of

the Board to ensure that any risks associated with investments is maintained at an acceptable level to protect against loss.

Asset Mix

To meet the investment objectives, the strategy of the Foundation may involve four general categories of assets: cash and cash equivalents, equity instruments, fixed income instruments, and other. Cash equivalents will include money market accounts, certificates of deposit, commercial paper, and other highly liquid short-term investments. The Foundation will maintain these instruments in reputable financial institutions with a history of managing these types of funds.

Equity instruments will be invested by selecting certain institutions that provide stock mutual funds. The Foundation will not prohibit but will discourage investments in individual stocks. The Foundation will solicit advice as necessary to generate an equity portfolio that provides a mix of equity instruments to maximize return but limit the associated risk.

Fixed income instruments will be invested by selecting certain institutions that provide debt instruments such as U.S. treasury bonds, treasury bills, debt mutual funds, high grade corporate bonds and agency bonds. The Foundation will maintain a conservative approach with regards to debt instruments. Fixed income instruments should focus on those with intermediate terms (1 to 10 years of maturity.) However, those with shorter or longer terms may be considered when deemed appropriate.

Other investments may include but are not limited to direct investments in real estate, REITS or other products that are not publicly traded. The Foundation will limit investments of this type and will only execute these investments after significant due diligence has been performed. The Foundation will also restrict these types of investments to certain return on investment and risk criteria to be determined on an investment by investment basis.

In order to accomplish the above, we have determined that the following asset mix guidelines should occur.

- 35 - 75 % of assets maintained in equities
- 25 - 65 % of assets maintained in fixed income and cash instruments
- 0 - 5 % of assets maintained in other investments

Asset mix guidelines will be reviewed on an annual basis or as determined by the Committee to determine if new monies should be or could be invested in alternative instruments. However, the overall objective is to obtain a rate of return in line with the Foundation's current and long-term objectives.

Asset Quality

1. Equity instruments – High quality instruments handled by managers with a proven track record should be considered.
2. Long Term fixed income instruments – Investment managers should select high quality fixed income instruments with proven managers that focus on these types of instruments. The portfolio should consist of only traditional principal and interest instruments (no derivatives or funds that use leverage) but may consist of securities with maturities from one to thirty years. Again the focus should be on intermediate maturities as discussed above under Asset Mix.
3. Cash equivalents and Short Term instruments – Investment managers should select high grade instruments with proven managers that focus on these types of funds. Given the short term and lower risk of this asset class, focus on those instruments that generate higher levels of return should be the focus. Short term fixed instruments should be consistent with long term fixed instruments except the length to maturity should not exceed one year. All assets of money market mutual funds should adhere to the standards for fixed income securities.
4. Other investments - Other investments may include real estate mutual funds, REITs or direct investment in real estate or other projects that meet strict guidelines for risk and return. These investments will be limited in nature.

Asset Diversification

As a general policy, the Finance and Investment Committee will oversee a reasonable diversification of assets at all times. As a general rule, direct investment in individual stocks and bonds will be discouraged. Furthermore, the Committee will track the asset mix and overall performance of all investment managers to ensure the Asset Mix guidelines are adhered to. The Committee will also consolidate funds managed by multiple fund managers to ensure assets in the various categories of growth, value, small cap, mid cap and large cap, are appropriate based on the Foundation's objectives.

Investment Manager Accountability

Transactions

The Foundation will purchase the full value of all securities with cash. There will be no margin transactions, short selling or commodity transactions. The only exception could be the use of a mortgage with the purchase of real estate. However, this would be a rare transaction.

Third Party Reporting Requirements

1. Monthly reports should be provided to the Finance and Investment Committee by the appropriate investment manager. This report should contain beginning and ending balances as well as all detailed transactions that were executed during the month. The

report should also explicitly document management fees and expenses charged during the period.

2. On a quarterly basis, the investment manager shall provide the Finance and Investment Committee reports that detail the overall portfolio performance, asset allocation, and future investment strategies and any other matters that would affect the investment decisions of the Board.
3. Annually the investment manager will provide an annual summary of all transactions for the fiscal year.

Finance and Investment Committee Accountability

Fiduciary Responsibility

The Finance and Investment Committee shall have chief fiduciary and fiscal responsibility for the investments of the Board. The Committee shall abide to practices as set forth by The Prudent Investor Rule. Although The Prudent Investor Rule in itself is not a law, it has been adopted in most state statutes and has been reflected in judicial decisions interpreting these decisions. It is being accepted as the law of the land. The Uniform Management of Institutional Funds Act is the statutory expression of The Prudent Investor Act and has been adopted by 39 states and the District of Columbia. Although Pennsylvania has not officially adopted this into its legislation, we will abide by its guidelines except for those areas where Pennsylvania's law is more conservative. See a copy of the Act in Appendix A.

Spending Policy

The Board of Trustees has adopted its Spending Policy to reflect the adoption of a Total Return Policy. Refer to the Foundation's separate Spending Policy.

Reporting

The Finance and Investment Committee shall report to the Board at the quarterly meetings the summarized activity and overall portfolio performance during any given quarter. The Committee shall also make written reports at the close of the fiscal year with respect to the amount of income generated from the funds and therefore made available for distribution in the next fiscal year.

Appendix A

Uniform Management of Institutional Funds Act ¹

An Act to establish guidelines for the management and use of investments held by eleemosynary institutions and funds.

Section

1. Definitions
2. Appropriation of Appreciation
3. Rule of Construction
4. Investment Authority
5. Delegation of Investment Management
6. Standard of Conduct
7. Release of Restrictions on Use of Investment
8. Severability
9. Uniformity of Application and Construction
10. Short Title
11. Repeal

Be it enacted.....

§ 1. Definitions

In this Act:

(1) “institution” means an incorporated or unincorporated organization organized and operated exclusively for educational, religious, charitable, or other eleemosynary purposes, or a governmental organization to the extent that it holds funds exclusively for any of these purposes;

(2) “institutional fund” means a fund held by an institution for its exclusive use, benefit, or purposes, but does not include (i) a fund held for an institution by a trustee that is not an institution or (ii) a fund in which a beneficiary that is not an institution has an interest, other than possible rights that could arise upon violation of failure of the purposes of the fund;

(3) “endowment fund” means an institutional fund, or any part thereof, not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument;

(4) “governing board” means the body responsible for the management of an institution or of an institutional fund;

(5) “historic dollar value” means the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment fund, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. The determination of historic dollar value made in good faith by the institution is conclusive.

(6) “gift instrument” means a will, deed, grant, conveyance, agreement, memorandum, writing, or other governing document (including the terms of any institutional solicitations from which an institutional fund resulted) under which property is transferred to or held by an institution as an institutional fund.

§ 2. Appropriation of Appreciation

The governing board may appropriate for expenditure, for the uses and purposes for which an endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund over the historic dollar value of the fund as is prudent under the standard established by Section 6. This Section does not limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution.

§ 3. Rule of Construction

Section 2. Does not apply if the applicable gift instrument indicates the donor’s intention that net appreciation shall not be expended. A restriction upon expenditure of net appreciation may not be implied from a designation of a gift as an endowment, or from a direction or authorization in the applicable gift instrument to use only “income,” “interest,” “dividends,” or “rents, issues or profits,” or “to preserve the principal intact,” or a direction which contains other words of similar import. This rule of construction applies to gift instruments executed or in effect before or after the effective date of this Act.

§ 4. Investment Authority

In addition to an investment otherwise authorized by law or by the applicable gift instrument, and without restriction to investments a fiduciary may make, the governing board, subject to any specific limitation set forth in the applicable gift instrument or in the applicable law other than law relating to investments by a fiduciary, may:

- (1) invest and reinvest an institutional fund in any real or personal property deemed advisable by the governing board, whether or not it produces a current return, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals and obligations of any government or subdivision or instrumentality thereof;
- (2) retain property contributed by a donor to an institutional fund for as long as the governing board deems advisable;
- (3) include all or any part of an institutional fund in any pooled or common fund maintained by the institution; and
- (4) invest all or any part of an institutional fund in any other pooled or common fund available for investment, including shares or interest in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

§ 5. Delegation of Investment Management

Except as otherwise provided by the applicable gift instrument or by applicable law relating to governmental institutions or funds, the governing board may (1) delegate to its committees, officers or employees of the institution or the fund, or agents, including investment counsel, the authority to act in place of the board in investment and reinvestment of institutional funds, (2) contract with independent investment advisors, investment counsel or managers, banks, or trust companies, so to act and (3) authorize the payment of compensation for investment advisory or management services.

§ 6. Standard of Conduct

In the administration of the powers to appropriate appreciation, to make and retain investments, and to delegate investment management of institutional funds, members or a governing board shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In so doing they shall consider long and short-term needs of the institution in carrying out its educational, religious, charitable, or other eleemosynary purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

§ 7. Release of Restrictions on Use of Investment

(a) With the written consent of the donor, the governing board may release, in whole or in part, a restriction imposed by the applicable gift instrument on the use or investment of an institutional fund.

(b) If written consent of the donor cannot be obtained by reason of his death, disability, unavailability, or impossibility of identification, the governing board may apply in the name of the institution to the [appropriate] court for release of a restriction imposed by the applicable gift instrument on the use or investment of an institutional fund. The [Attorney General] shall be notified of the application and shall be given an opportunity to be heard. If the court finds that the restriction is obsolete, inappropriate, or impracticable, it may by order release the restriction in whole or in part. A release under this subsection may not change an endowment fund to a fund that is not an endowment fund.

(a) A release under this section may not allow a fund to be used for purposes other than the educational, religious, charitable, or eleemosynary purposes of the institution affected.

(b) This section does not limit application of the doctrine of *cy pres*.

§ 8. Severability

If any provision of this Act or the application thereof to any person or circumstances is held invalid, the invalidity shall not affect other provisions or application of the Act which can be given effect without the invalid provision or application, and to this end the provisions of this Act are declared severable.

§ 9. Uniformity of Application and Construction

This Act shall be so applied and construed as to effectuate its general purpose to made uniform the law with respect to the subject of this Act among those states which enact it.

§ 10. Short Title

This Act may be cited as the “Uniform Management of Institutional Funds Act.”

Appendix B

Moody's Investment Ratings for various Debt instruments ²

LONG-TERM RATINGS

Debt Ratings - Taxable Debt & Deposits Globally

Aaa Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the Aaa securities.

A Bonds which are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa Bonds which are rated Baa are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Moody's bond ratings, where specified, are applicable to financial contracts, senior bank obligations and insurance company senior policyholder and claims obligations with an original maturity in excess of one year. Obligations relying upon support mechanisms such as letters-of-credit and bonds of indemnity are excluded unless explicitly rated. Obligations of a branch of a bank are considered to be domiciled in the country in which the branch is located.

Unless noted as an exception, Moody's rating on a bank's ability to repay senior obligations extends only to branches located in countries which carry a Moody's Sovereign Rating for Bank Deposits. Such branch obligations are rated at the lower of the bank's rating or Moody's Sovereign Rating for the Bank Deposits for the country in which the branch is located. When the currency in which an obligation is denominated is not the same as the currency of the country in which the obligation is domiciled, Moody's ratings do not incorporate an opinion as to whether payment of the obligation will be affected by the actions of the government controlling the currency of denomination. In addition, risk associated with bilateral conflicts between an investor's home country and either the issuer's home country or the country where an issuer branch is located are not incorporated into Moody's ratings.

Moody's makes no representation that rated bank obligations or insurance company obligations are exempt from registration under the U.S. Securities Act of 1933 or issued in conformity with any other applicable law or regulation. Nor does Moody's represent any specific bank or insurance company obligation is legally enforceable or a valid senior obligation of a rated issuer.

Note: Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Debt Ratings - U.S. Tax-Exempt Municipals

There are nine basic rating categories for long-term obligations. They range from Aaa (highest quality) to C (lowest quality). Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa to Caa. The Modifier 1 indicates that the issue ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic category. Advance refunded issues that are secured by escrowed funds held in cash, held

in trust, reinvested in direct non-callable United States government obligations or non-callable obligations unconditionally guaranteed by the U.S. government are identified with a # (hashmark) symbol, eg. # Aaa.

Aaa Bonds that are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities.

A Bonds that are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present that suggest a susceptibility to impairment sometime in the future.

Baa Bonds that are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B Bonds that are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or maintenance of other terms of the contract over any long period of time may be small.

Caa Bonds that are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca Bonds that are rated Ca represent obligations that are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C Bonds that are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Con. (...) Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by: (a) earnings of projects under construction, (b) earnings of projects unseasoned in operating experience, (c) rentals that begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

Moody's Counterparty Ratings

Moody's Counterparty Ratings are opinions of the financial capacity of an obligor to honor its senior obligations under financial contracts, given appropriate documentation and authorizations. Financial contracts include swaps, forwards, options, letters of credit and similar products. Moody's makes no representation that any or all financial contracts entered into by rated counterparties are in compliance with any applicable law or regulation, or have been approved by the obligor, nor does Moody's represent or imply that any financial contract is legally enforceable, is properly authorized, or is a valid senior obligation of a rated obligor.

Unless noted as an exception, Moody's Counterparty Rating on a bank extends only to branches located in the bank's home country.

When the currency in which a financial contract is denominated is not in the same currency of the country in which the financial contract is domiciled, Moody's ratings do not incorporate an opinion as to whether payment of the obligation will be affected by actions of the government controlling the currency of denomination. In addition, risks associated with bilateral conflicts between one counterparty's home country and the other counterparty's home country are not incorporated into Moody's Counterparty Ratings.

Moody's ratings are opinions, not recommendations to enter into any financial contract, and their accuracy cannot be guaranteed. A rating should be weighed solely as one factor in a decision, and you should make your own study and evaluation of any counterparty with which you are considering entering into a financial contract, and the market risk aspects, status and other particulars of any specific financial contract under consideration.

Moody's uses the following designations to indicate the financial capacity of counterparties.

Aaa Counterparties rated Aaa offer exceptional financial security and have the smallest degree of risk. While the financial strength of these entities may change, such changes as can be visualized are most unlikely to impair the entities' strong position.

Aa Counterparties rated Aa offer excellent financial security but are rated lower than Aaa counterparties because long-term risks appear somewhat larger. The margins of protection may not be as large as with Aaa counterparties, or fluctuations of protective elements may be of greater amplitude.

A Counterparties rated A offer good financial security. However, elements may be present that suggest a susceptibility to impairment at some time in the future.

Baa Counterparties rated Baa offer adequate financial security. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

Ba Counterparties rated Ba offer questionable financial security. Often the ability of these entities to meet counterparty obligations may be uncertain and thereby not well safeguarded in the future.

B Counterparties rated B offer poor financial security. Assurance of punctual payment of obligations over any long period of time is small.

Caa Counterparties rated Caa offer very poor financial security. Such counterparties may be in default, or there may be present elements of danger with regard to financial capacity.

Ca Counterparties rated Ca offer extremely poor financial security. Such counterparties are often in default on their obligations.

C Counterparties rated C are the lowest rated class of counterparties, are usually in default on their obligations, and potential recovery values are low.

Note: Moody's applies numerical modifiers 1, 2, and 3 in each generic rating category from Aa to Caa. The modifier 1 indicates that the counterparty is in the higher end of its letter-rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the counterparty is in the lower end of the letter-rating category.

SHORT-TERM RATINGS

Moody's Short-Term Prime Rating System - Taxable Debt & Deposits Globally

Moody's short-term debt ratings are opinions of the ability of issuers to repay punctually senior debt obligations. These obligations have an original maturity not exceeding one year, unless explicitly noted.

Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment ability of rated issuers:

Prime-1 Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

- Leading market positions in well-established industries.
- High rates of return on funds employed.
- Conservative capitalization structure with moderate reliance on debt and

ample asset protection. •Broad margins in earnings coverage of fixed financial charges and high internal cash generation. •Well-established access to a range of financial markets and assured sources of alternate liquidity.

Prime-2 Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Prime-3 Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

Not Prime Issuers rated Not Prime do not fall within any of the Prime rating categories.

Obligations of a branch of a bank are considered to be domiciled in the country in which the branch is located. Unless noted as an exception, Moody's rating on a bank's ability to repay senior obligations extends only to branches located in countries which carry a Moody's Sovereign Rating for Bank Deposits. Such branch obligations are rated at the lower of the bank's rating or Moody's Sovereign Rating for Bank Deposits for the country in which the branch is located.

When the currency in which an obligation is denominated is not the same as the currency of the country in which the obligation is domiciled, Moody's ratings do not incorporate an opinion as to whether payment of the obligation will be affected by actions of the government controlling the currency of denomination. In addition, risks associated with bilateral conflicts between an investor's home country and either the issuer's home country or the country where an issuer's branch is located are not incorporated into Moody's short-term debt ratings.

Moody's makes no representation that rated bank or insurance company obligations are exempt from the registration under the U.S. Securities Act of 1933 or issued in conformity with any other applicable law or regulation. Nor does Moody's represent that any specific bank or insurance company obligation is legally enforceable or a valid senior obligation of a rated issuer.

If an issuer represents to Moody's that its short-term debt obligations are supported by the credit of another entity or entities, then the name or names of such supporting entity or entities are listed within the parenthesis beneath the name of the issuer, or there is a footnote referring the reader to another page for the name or names of the supporting entity or entities. In assigning ratings to such issuers, Moody's evaluates the financial

strength of the affiliated corporations, commercial banks, insurance companies, foreign governments or other entities, but only as one factor in the total rating assessment. Moody's makes no representation and gives no opinion on the legal validity or enforceability of any support arrangement.

Moody's ratings are opinions, not recommendations to buy or sell, and their accuracy is not guaranteed. A rating should be weighed solely as one factor in an investment decision and you should make your own study and evaluation of any issuer whose securities or debt obligations you consider buying or selling.

Moody's Short-Term MIG/VMIG Ratings - US Tax-Exempt Municipals

There are four rating categories for short-term obligations that define an investment grade situation. These are designated Moody's Investment Grade as MIG 1 (best quality) through MIG 4 (adequate quality). Short-term obligations of speculative quality are designated SG.

In the case of variable rate demand obligations (VRDOs), a two-component rating is assigned. The first element represents an evaluation of the degree of risk associated with scheduled principal and interest payments, and the other represents an evaluation of the degree of risk associated with the demand feature. The short-term rating assigned to the demand feature of VRDOs is designated as VMIG. When either the long- or short-term aspect of a VRDO is not rated, that piece is designated NR, e.g., Aaa/NR or NR/VMIG 1.

Issues that are subject to a periodic reoffer and resale in the secondary market in a "dutch auction" are assigned a long-term rating based only on Moody's assessment of the ability and willingness of the issuer to make timely principal and interest payments. Moody's expresses no opinion as to the ability of the holder to sell the security in a secondary market "dutch auction." Such issues are identified by the insertion of the words "dutch auction" into the name of the issue.

Issues or the features associated with MIG or VMIG ratings are identified by date of issue, date of maturity or maturities or rating expiration date and description to distinguish each rating from other ratings. Each rating designation is unique with no implication as to any other similar issue of the same obligor. MIG ratings terminate at the retirement of the obligation while VMIG rating expiration will be a function of each issue's specific structural or credit features.

MIG 1/VMIG 1 This designation denotes best quality. There is present strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

MIG 2/VMIG 2 This designation denotes high quality. Margins of protection are ample although not so large as in the preceding group.

MIG 3/VMIG 3 This designation denotes favorable quality. All security elements are accounted for but there is lacking the undeniable strength of the preceding grades. Liquidity and cash flow protection may be narrow and market access for refinancing is likely to be less well established.

MIG 4/VMIG 4 This designation denotes adequate quality. Protection commonly regarded as required of an investment security is present and although not distinctly or predominantly speculative, there is specific risk.

SG This designation denotes speculative quality. Debt instruments in this category lack margins of protection.

Moody's Bank Financial Strength Ratings

Moody's Bank Financial Strength Ratings represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's traditional debt and deposit ratings. Unlike Moody's traditional debt ratings, Bank Financial Strength Ratings do not address the probability of timely payment. Instead, Bank Financial Strength Ratings can be understood as a measure of the likelihood that a bank will require assistance from third parties such as its owners, its industry group, or official institutions. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations.

Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

The definitions for Moody's Bank Financial Strength Ratings (which have been revised slightly since they were announced in November) are as follows:

A Banks rated A possess exceptional intrinsic financial strength. Typically, they will be major institutions with highly valuable and defensible business franchises, strong financial fundamentals, and a very attractive and stable operating environment.

B Banks rated B possess strong intrinsic financial strength. Typically, they will be important institutions with valuable and defensible business franchises, good financial fundamentals, and an attractive and stable operating environment.

C Banks rated C possess good intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises. These banks will demonstrate either acceptable financial fundamentals within a stable operating environment, or better than average financial fundamentals within an unstable operating environment.

D Banks rated D possess adequate financial strength, but may be limited by one or more of the following factors: a vulnerable or developing business franchise; weak financial fundamentals; or an unstable operating environment.

E Banks rated E possess very weak intrinsic financial strength, requiring periodic outside support or suggesting an eventual need for outside assistance. Such institutions may be limited by one or more of the following factors: a business franchise of questionable value; financial fundamentals that are seriously deficient in one or more respects; or a highly unstable operating environment.

Intermediate Categories: Where appropriate, a "+" may be appended to ratings below the "A" category to distinguish those banks that fall into intermediate categories.

Appendix C

References

1. Creating and Using Investment Policies: A Guide for Nonprofit Boards, Robert P. Fry, Jr., National Center for Nonprofit Boards, February 1997.
2. Ratings & ratings Action, Moody's Investor Services - Web page (Internet).
September 1999.