**Earlham Foundation**
**Investment Policy Statement**

*Amended November 18, 2022*
*Approved November 19, 2021*

# I. Introduction

The role of the Earlham Foundation (the "Foundation"), acting as the Investment Committee of the Earlham College Board of Trustees, is to provide stewardship for the long-term financial resources that support and promote the activities and programs for Earlham School of Religion and Earlham College (together, "Earlham") both for unrestricted operations and for activities for which income and/or principal has been restricted by the donor(s). This Investment Policy Statement ("IPS") is intended to provide direction in the overall management of the Earlham Endowment, including the true endowment, the quasi-endowment and the Lilly Endowment (collectively, the "Earlham Endowment" or the "Endowment"), as well as to formalize the long-term strategy for meeting Earlham's financial obligations. This Investment Policy Statement is to be reviewed annually and revised or reaffirmed as appropriate.

# II. Governance Structure

The Earlham Foundation was created in 1931 as an incorporated independent not-for-profit foundation to hold and invest the Endowment assets assigned to it by Earlham College and for the benefit of Earlham, including the Earlham School of Religion. The nine-member Board of Directors elects candidates nominated by Western Yearly Meeting (2) and the Earlham Board of Trustees (6). The Earlham College Vice President for Finance and Operations/Chief Financial Officer (CFO) is an ex-officio Director of the Earlham Foundation.

The Earlham Board of Trustees appoints the Foundation Directors as the investment committee of Earlham and delegates specific investment responsibility and authority to the Foundation Board.

The Foundation Board delegates to the Earlham College Vice President for Finance and Administration/CFO, acting as the Foundation Treasurer, the authority to administer the Foundation's responsibilities on a day-to-day basis. The CFO may further delegate responsibilities, as needed or as the CFO deems appropriate.

# III. Interpretation of Relevant Law

Earlham's Board of Trustees has interpreted the State of Indiana Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor restrictions to the contrary. As a result of this interpretation, Earlham College and Earlham School of Religion (aka Earlham) classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by Earlham in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Earlham considers the following factors in making a determination to appropriate or accumulate income on a total return basis from donor-restricted endowment funds:

1. the duration and preservation of the fund;
2. the purposes of Earlham and the fund;
3. general economic conditions;
4. the possible effect of inflation or deflation;
5. the expected total return from investment income and appreciation or depreciation of investments;

6. other resources of Earlham; and
7. the investment policies of Earlham

The Foundation Board, acting as the Investment Committee of the Earlham College Board of Trustees, will use reasonable efforts to comply with its interpretation of Indiana Code 30-2-12-14, "Duties of person or institution managing or investing institutional fund" and IC 30-2-12-15", Delegation of management or investment of institutional fund; duties of agent". The Foundation Board shall review the Code at least annually for compliance.

## IV. Investment Responsibilities

The Foundation Board is responsible for the investment assets, the Endowment, and this IPS, and executes this responsibility in regularly scheduled or special meetings. In accordance with the IPS, the Foundation Board shall have full power and authority to manage, invest, and reinvest all of the Endowment's assets. Furthermore, the Foundation Board shall have full power and authority to employ, retain, or engage the services of such custodians, trustees, fiscal agents, investment managers, and other professional personnel as it shall deem necessary or desirable.

Responsibilities of the Foundation Board include, but are not limited to, the following:

- Operating in accordance with the framework of the Memorandum of Understanding (MoU) between Earlham Foundation and Earlham College, Draft of 12/1/17. At its meeting by telephone conference on December 1, 2017, the Foundation Board considered a proposed revised Memorandum of Understanding between the Earlham Foundation (the "Foundation") and Earlham College (the "College") and, after discussion, approved an amended version of the Memorandum (the "2017 MoU", see Appendix A). At its meeting on March 16, 2018, the Foundation Board learned that the College's Board of Trustees at its February 2018 meeting (1) declined to approve the entirety of the 2017 MoU and (2) decided instead to operate consistently with the 2017 MoU and to approve all of its provisions other than the one giving the Foundation ultimate responsibility for setting the spending rate on the true endowment portion of the endowment portfolio. The Foundation (1) has not (by silence) accepted the College's implied reservation of the right to set the spending rate on the true endowment, and (2) will comply with the 2017 MoU to the greatest degree practicable (given the College's position) as the Foundation and the College seek to resolve the issue of which entity properly should set the spending rate on the true endowment

- Operating in accordance with, and confirming compliance with, this IPS.

- Monitoring performance of the Endowment assets periodically with an emphasis on long-term performance relative to the Endowment's investment objective.

- Selecting, terminating, and monitoring investment consultants, investment managers, and custodians. These external relationships are to be reviewed annually.

- For separately managed accounts, voting proxies in accordance with Earlham's Socially Responsible Investment Policy or delegating the voting of proxies to the investment managers per Earlham's directions. The Foundation Board may delegate proxy voting activities to investment staff.

- Commissioning special studies or assignments as necessary.

- Reporting to the Earlham College Board of Trustees the status of the Endowment assets no less than annually.

Execution of the above responsibilities, among others, is by the consensus of the Foundation Board members. Foundation Board members may act between regular scheduled meetings to respond to developments in the capital markets or to implement specific, non-policy actions, including manager-related decisions. Actions may be approved telephonically or by e-mail correspondence.

The CFO, or other Staff members ("Staff") as agreed to by the Foundation Board, and, if retained, an investment consultant ("Consultant") selected by the Foundation Board will provide support. Responsibilities of the Consultant, working in consultation with the CFO include analyzing investment policies and strategies; making recommendations to the Foundation Board, including investment manager recommendations; monitoring the Endowment's assets and its managers; and any other responsibilities delegated to it by the Foundation Board. The Foundation Board may also delegate certain administrative functions to Staff. The Consultant will report to the Foundation Board during regularly scheduled and special meetings, and at other times when deemed appropriate.

## V. Conflict of Interest

If any member of the Foundation Board, Staff, or Consultant shall have, or appear to have, a conflict of interest that impairs or appears to impair the respective member's ability to exercise independent and unbiased judgment in the good faith discharge of his or her duties, he or she shall disclose such conflicts to the Foundation Chair. The Foundation Chair shall report the conflict to the Foundation Board prior to meaningful discussion.

## VI. Investment Philosophy

The Earlham Foundation will maintain an investment program for the Endowment that seeks to achieve the spending policy goals while maintaining acceptable risk levels. The investment focus is on long-term total return. The investment approach will emphasize the need to maintain a well-diversified investment program through the long-term allocation of Endowment assets among asset classes. Within each asset class, the Foundation Board will select and delegate investment discretion to professional investment managers whose various styles are complementary to one another.

## VII. Investment Objectives

The primary investment objective is to preserve the real (inflation-adjusted) purchasing power of the Endowment, while providing a relatively predictable, constant, and stable (in real terms) stream of earnings for current spending. Within this framework, the investment portfolio is constructed and managed with an objective to earn a long-term annualized total return, net of investment management fees, equal to or greater than inflation plus 4.5%. Inflation is measured by the Consumer Price Index (CPI).

The Endowment's investment objective and spending policy are based on total return, which is the sum of interest, dividends, and capital appreciation or depreciation less investment expenses.

## VIII. Spending Policy

In order to preserve the real (inflation-adjusted) purchasing power of the Earlham Endowment while providing a relatively predictable, constant and stable (in real terms) stream of earnings for current use, spending should not exceed the long-term real return of the Earlham Endowment, as stated in the Investment Objectives. Under the current status of the 2017 MoU (see IV. Investment Responsibilities), The Foundation Board is responsible for setting the spending rate on the true endowment portion of the Endowment. The Foundation Board shall consider, at least annually, whether any change to the existing spending rate on the true endowment should be made. The Earlham Board of Trustees is responsible for setting the spending rate (including any special draw) on the quasi-endowment and Lilly Endowment portions of the Endowment. Any changes to the spending rates must be in accordance with the MoU (see Appendix A).

> The spending rule for the true endowment, the quasi-endowment and the Lilly Endowment presently is: Adjust endowment spending from the previous year by the change in the all-items CPI index for the prior

calendar year but the adjusted endowment spending shall not exceed 5% nor be less than 4% of the average market value of the endowment over the 12 calendar quarters ending on the last day of the calendar quarter ending December 31 preceding the start of the fiscal year. If there are additions to and/or withdrawals from principal in excess of an annualized 1⁄2% then the market values for the prior quarters shall be adjusted accordingly before the calculation of the budgeted spending.

(The Earlham Board of Trustees and the Earlham Foundation Board each ratified the spending rule in 2011.)
The spending rule is not applied for new gifts until the gift has been invested for four (4) consecutive calendar quarters. Until this condition has been met, spending from new gifts will be limited to net cash income earned on that gift. Net cash income is defined as ordinary income less operating expenses.
Any earnings on endowed funds in excess of the spending rate are retained in the Endowment. If cash earnings, at the endowed fund level, are less than the spending rate, then capital gains from that fund will be liquidated to make up the shortfall.

Each endowed fund to which the spending rule applies will be analyzed as of June 30 of each year to determine whether application of the spending rule to that fund in the following year would violate, or likely violate, SPMIFA's standard of prudence in preserving the fair value of the original gift of that fund. If such analysis predicts a violation, then as to that fund the spending rule will be suspended, and net cash income only will be distributed from that fund for the following fiscal year. If at the next June 30 application of the spending rule to that fund in the following year no longer would likely violate SPMIFA's standard of prudence, then the spending rule will be reinstated as to that fund.

## IX. Asset Class Overview

Given the Endowment's investment philosophy and objectives, the Foundation Board has established an asset allocation for the Endowment incorporating long-term expected rates of return, risk, and correlations among asset classes. The Foundation Board has decided the investment structure should be broadly diversified across and within asset classes, as well as among various investment managers. The primary purpose of diversification is portfolio risk management.

- **Equities** – Public equities account for a very large portion of the world's financial markets and have the potential to provide long-term real growth. Private equities will also be considered as they may provide higher levels of long-term real growth, albeit with less liquidity.

- **Real Assets** – These assets tend to have inflation-hedging characteristics and can include real estate, natural resources, commodities, and inflation-protected securities (e.g., TIPS).

- **Fixed Income** – The primary objectives of owning fixed income is to provide deflation-hedging, liquidity, and current income characteristics, and as such can include U.S. Treasuries, international fixed income, or other high quality bonds. In the case of sovereign fixed income an added objective of owning the bonds is they typically provide a hedge against a decline of value against other currencies. Lower quality fixed income, such as high yield or distressed debt securities, may also be included in the context of the overall portfolio.

- **Flexible Capital** – This includes strategies and managers seeking to generate uncorrelated absolute returns and avoid market fluctuations by investing across a number of security types. These strategies may include hedge funds of funds or direct investments in hedge funds. These strategies have the potential to provide lower levels of risk than long-only equities, while preserving returns that are sufficient to help meet the overall performance objective. The flexible capital strategies may include long-short equities and credit, arbitrage-oriented approaches, event-driven, absolute return, macro and multi-strategy managers among others. Diversification will be a fundamental element of this allocation.

- **Cash** – Cash may be included in the portfolio, but is not expected to be a long-term generator of high returns. Rather, cash will serve to meet liquidity needs.

In an effort to protect against a decline in a particular currency, such as the U.S. dollar, asset classes may be diversified across numerous countries and currencies. However, it must be recognized that the College's expenses and liabilities are denominated primarily in U.S. dollars.

## X. Asset Allocation Policy

For each asset class, the Foundation Board will evaluate the relative attractiveness of an active manager versus a passive implementation. The Foundation Board will use active management only in those asset classes where they believe that such implementation will result in a consistent pattern of above index returns, net of fees. The Foundation Board believes that proper diversification between and within each asset class provides the opportunity for better returns and improved risk characteristics.

The Foundation Board has adopted target asset allocation policies as set forth below. The target asset allocation is to be reviewed by the Foundation Board at least annually.

Interim Target – Target asset allocation under current extraordinary circumstances of the College making substantial supplemental draws in excess of the Spending Policy.

Long-Term Target – Target asset allocation, assuming a return to a normal environment of annual Effective Spending Rates within the Spending Policy.

**Target Percentages**

| Interim Targets | | Long-Term Targets | | | |
|---|---|---|---|---|---|
| Target (%) | Range (%) | Target (%) | Range (%) | Asset Class | Index |
| 19.0 | 14.0 – 24.0 | 17.0 | 13.0 – 21.0 | Domestic Public Equity | Russell 3000 |
| 22.0 | 16.0 – 26.0 | 22.0 | 17.0 – 27.0 | International Public Equity | MSCI All Country World ex-U.S/MSCI Emerging Markets Net Index |
| 16.0 | 10.0 – 20.0 | 17.0 | 11.0 – 23.0 | Private Equity | Venture Economics All PE – 1 quarter in arrears |
| 18.0 | 13.0 – 23.0 | 18.0 | 13.0 – 23.0 | Flexible Capital | HFRI FOF Composite Index |
| 12.0 | 8.0 – 16.0 | 16.0 | 12.0 – 20.0 | Real Assets | Custom index of underlying real asset strategies |
| 13.0 | 10.0 – 20.0 | 10.0 | 7.0 – 13.0 | Fixed Income | Custom index of underlying fixed income strategies |
| 0.0 | 0.0 – 5.0 | 0.0 | 0.0 – 5.0 | Cash, Cash Equivalents and Ultra-short Fixed Income | |
| 100.0 | | 100.0 | | | Actual Index and Policy Index – Measure of Total Fund allocation and manager performance relative to policy benchmarks |

The Foundation Board acknowledges the need for cash for transaction purposes but will seek to minimize cash balances in order to invest in higher earning assets, while allowing for the holding of cash as a short- term strategy. The Foundation Board reviews the Endowment's asset allocation, relative to the targets, on a quarterly basis.

## XI. Manager Concentration Limit

Typically, managers engaged in active strategies will be limited to a maximum of 10% of the total Endowment value. If the manager of an actively managed strategy approaches 10% of the total value, the manager will be subject to review and confirmation by the Foundation Board at the next meeting. Managers with over 10% of the Endowment value will be subject to enhanced monitoring by the Foundation Board and the Consultant with respect to the manager's contribution to the overall portfolio characteristics. The concentration limit will not apply to passive investments intended to replicate exposure to designated benchmark indices held within the Endowment.

## XII. Rebalance Policy

The Foundation Board delegates the day-to-day rebalancing activities of the investment assets to the CFO to the approved asset allocation policy guidelines and to approved investment managers. Additional contributions to, and liquidations from, the Endowment will be divided among the investment managers in such proportions so as to maintain or to move toward the targeted asset allocation. However, short-term spending, administrative considerations, and tactical allocation decisions may intervene occasionally.

Cash receipts shall be invested as soon as practical and in accordance with the current asset allocation policy, unless otherwise approved.

If the Endowment's actual allocations differ materially from the targeted allocation, the Foundation Board will take action to rebalance the allocations back toward the target. The preferred method is to use normal cash flows (added to allocations that are currently underweight, withdrawn from areas most overweight). Rebalancing beyond normal cash flows may involve withdrawing cash from outperforming or over-allocated asset classes and contributing cash to underperforming or under-allocated asset classes. Rebalancing of illiquid investments (i.e., private equity, private real estate or natural resource partnerships) may require adjustments to capital commitments to rebalance. Achieving and maintaining target allocations to illiquid investments is impacted by the timing of the investment managers' capital calls and distributions which are beyond the control of the Foundation Board.

## XIII. XIII. Gift Policy

Gifts or donations of securities and tangible items (e.g., real estate, gifts of art and other tangible assets) shall be converted to cash as soon as practical and invested in accordance with current asset allocation policy, unless otherwise approved.

## XIV. Investment Monitoring

The Foundation Board, with the assistance of the Consultant, will monitor the Endowment's investment structure, investment managers, and investment performance. Any material deviation from policy shall be brought to the attention of the Foundation Board at its regularly scheduled meeting or earlier if deemed urgent by Earlham's CFO or the Consultant. It is reasonable to expect each active investment manager to make a formal presentation to the Foundation Board as requested and to provide quarterly updates on investment performance and their investment process. An on-site visit should be made to the office of each actively-managed public equity, fixed income or flexible capital manager, approximately every two years by the Consultant's staff. Each manager and the Foundation will agree on a benchmark index, and an investment objective relative to that index, appropriate to the manager's product and style. The Foundation Board may consider replacing a manager for any reason, including the following: (i) its three- and five-year rolling returns are below its benchmark; (ii) it underperforms its peer group for a three- and five-year rolling period; (iii) there is a significant change in its ownership, personnel, investment philosophy, process or discipline, or evidence of misconduct; or (iv) there is a material change in the risk profile in a manager's portfolio.

The Endowment's success in meeting its performance goals will be evaluated versus a passive implementation of the Endowment's asset allocation targets and will be evaluated over rolling three- and five-year periods.

The Consultant's staff will attend annual meetings hosted by each private equity or inflation hedge manager, with funds still in their investment periods, at least every two years. The Consultant's staff will also periodically visit the offices of these managers. Attendance at meetings of funds beyond their investment periods shall be at the discretion of the Consultant.

## XV. Manager Restrictions

Each marketable investment manager will provide the Foundation with a set of investment guidelines within which its portion of the Endowment will be managed. Each manager should manage its portion of the Endowment consistent with the way in which the manager's "composite fund" for that specific investment style is managed as defined and stated in the manager's prospectus, offering memorandum, or in the separate account agreement. The manager must notify Earlham or the Consultant prior to any change of investment philosophy, key personnel, or firm ownership or within a reasonable period following an unanticipated occurrence to allow appropriate consideration of how the changes may impact the Foundation's investment.

The Foundation will only invest with managers who provide or publicly report annual audited financial statements.

Investment managers may use derivatives or leverage, as described in individual manager guidelines, to implement investment strategies.

Each actively-managed investment manager will provide to the Foundation and the Consultant an annual statement that their fund is in compliance with the fund's stated investment guidelines. This may be satisfied by reference to public disclosures. Investment guideline violations will be reported promptly to the Foundation and investment consultant.

## XVI. Socially Responsible Investing (SRI)/Environmental, Social, Governance (ESG) considerations

Earlham's commitment to socially responsible investing is drawn from the principles and practices of Religious Society of Friends. These values include the belief that the life and dignity of every person should be equally respected. Growing out of this belief are the Quaker testimonies concerning peace, equality, integrity, simplicity, and goodwill between people and between nations.

This philosophy applies to directly held securities in the portfolio, over which Earlham can exercise control of the investment guidelines. Earlham cannot exercise control of the investment guidelines in commingled funds and limited partnerships because the investment manager or general partner is required to treat all investors and partners under the same investment policies. To minimize administrative burden and cost, the Foundation strongly favors investments in funds such as mutual funds, exchange traded funds, common trust funds, and limited partnerships. It seeks to avoid investments in directly held securities in separate accounts. When searching for new, long only public equity or public debt managers offering commingled funds, the Earlham Foundation may consider managers or funds who incorporate SRI or ESG investment policies or strategies.

In the instance the College receives a direct security or asset that contradicts this philosophy, per section XII, that security is converted to cash as soon as practical.

## XVII. Diversity, Equity and Inclusion (DEI) Considerations

Consistent with Quaker values Earlham aspires to be a diverse, equitable and inclusive community, as such, the Foundation aligns these aspirations with the endowment investment experts selected to manage the fund assets. Earlham believes that effectively accessing and managing diverse talent— inclusive of varied backgrounds, age, experience, race, sexual orientation, gender, ethnicity, and culture— leads to improved outcomes. Earlham expects external asset managers and other third-party providers to respect and reflect these values. Earlham's Consultant monitors investment firms and third-party service providers commitment to, adherence with, and track record of accessing and retaining diverse and inclusive workforces. However, it is just one of many criteria for consideration including but not limited to relative performance, relative cost of fees, and relative risk. The Foundation is not required to select a manager incorporating DEI criteria.

## APPENDIX A

### Memorandum of Understanding between Earlham Foundation and Earlham College
### Richmond, Indiana

*Final Version of 12/1/2017*

WHEREAS Earlham College, a corporation duly organized and existing under the laws of the State of Indiana, and Earlham Foundation, a separate corporation duly organized and existing under the laws of the State of Indiana, desire to clarify their respective rights and responsibilities regarding certain assets used for the exclusive benefit of Earlham College, and

WHEREAS, the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and classified under Code section 509(a)(3) as a public charity and a Type I supporting organization that is organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the College, it is hereby

RESOLVED that both parties approve the following Memorandum of Understanding and agree to take all necessary measures to put it into effect.

<u>Scope:</u>

This Memorandum of Understanding applies only to the assets (and claims against the assets) of the Pooled Earlham Endowment/Foundation Fund (the "unified investment pool"). It does not apply to any other investment assets held by Earlham College or any other activity that either organization may pursue or deem necessary.

<u>Constitution of the Unified Investment Pool:</u>

The unified investment pool encompasses three categories of funds, or claims against the assets of the pool:

1. **Quasi-endowment** funds that the Earlham College Board of Trustees has designated to be managed as endowment, with the understanding that such funds could be "recalled."
2. **True endowment** funds for which donors have specified that the original gift amount be maintained in perpetuity. In some cases the donors also restricted the use of the income to a specified purpose.
3. The **Lilly Endowment** funds that resulted from the series of generous gifts from Mr. Lilly to the College. While these funds are also true endowment funds, and therefore the original gift amounts must be maintained in perpetuity, the College has the right to redeem the Lilly Endowment funds from the unified investment pool under the conditions stipulated below.

The unified investment pool is unitized, meaning that all funds are represented by a certain number of units in the pool. The total market value of the assets in the pool divided by the total number of units in the pool equals the unit market value. When new funds are added to the pool, they are converted to units using the unit market value as calculated by the College as of the most recent calendar quarter end.

<u>Rights and Responsibilities of the Earlham Foundation:</u>

1. To manage prudently the unified investment pool in support of Earlham College.

2. To hire, maintain, and terminate investment managers, investment consultants, and other financial services providers, at its sole discretion, for the unified investment pool.

3. To hold legal title to all investments in the unified investment pool in its own name and tax ID number; provided, however, that such titling of the quasi-endowment and Lilly Endowment portions of the unified investment pool has been, and will continue to be, for transactional efficiency in managing the pool and

has not, and will not, carry with it the ultimate authority to set the spending rate from those portions of the pool, which authority the College at all times has retained (and shall continue to have, as specifically provided in item 5 of the College's rights stated below).

4. To apply the spending rate and make any special draws as requested by the College on the quasi-endowment and Lilly Endowment portions of the unified investment pool in accordance with the requirements set forth below.

5. To distribute quasi-endowment and Lilly Endowment portions of the unified investment pool to Earlham College when requested by the College with advance notice to the Foundation in accordance with the requirements set forth below. For each such distribution (whether entirely in cash or by transfer of non-cash assets or a combination of cash and non-cash assets), the calculation of the number of units in the unified investment pool redeemed shall be based on the market value per unit as calculated by the College as of the calendar quarter end immediately prior to the distribution date. Similarly, the value of any non-cash assets transferred as part of such a distribution shall be their market value as calculated by the College as of the calendar quarter end immediately prior to the distribution date. The calculation of the market value of the assets thus distributed shall be verified by a certified public accounting firm.

6. To set the spending rate on the true endowment portion of the unified investment pool (other than the Lilly Endowment), giving due consideration to the needs and recommendations of the College and giving the College at least 6 months' advance notice of any decision to change the existing spending rate.

7. To name one member of the Earlham College Audit Committee.

8. To approve the hiring of investment staff to carry out its duties.

9. To fund the costs of operating the investment office from the unitized investment pool, including wages and benefits of investment staff and travel and office expenses. Expenses may also include an allocation of time of other College staff for administrative support to the Foundation, Foundation legal and accounting fees, and other related expenses.

<u>Rights and Responsibilities of Earlham College:</u>

1. To provide operational and record-keeping services for the Foundation, including keeping records of the College's and the Foundation's respective units of ownership in the unified investment pool and managing the payroll function for any employees of the Foundation, as requested by the Foundation.

2. To keep adequate documentation of all donor restrictions on endowed gifts (or Board mandates for quasi-endowment funds) and to ensure that these funds are properly accounted for and are only used for the specified purposes.

3. To select a certified public accounting firm to conduct an external audit of the Foundation in conjunction with its audit of the College.

4. To include the Foundation in the scope of the College Audit Committee's oversight, which does not impair the Foundation Board's independence or fiduciary duties.

5. To set the spending rate on the quasi-endowment and Lilly Endowment funds giving due consideration to the needs and recommendations of the Foundation and subject to the provisions that:

    a. it gives the Foundation at least 6 months' advance notice prior to the effective date of any increase in this spending rate, and

b. the spending rate may not be increased more than one percent per year without the express consent of the Foundation so that the Foundation can prudently manage the unified investment pool and maintain adequate liquidity.

6. To request and receive redemptions of units representing the quasi-endowment and/or the Lilly Endowment portions of the unified investment pool (i.e., special draws), above and beyond the spending rate, in accordance with the following requirements:
   a. The College will give the Foundation 4 months' advance notice for redemptions of up to 1% of the total market value of the unified investment pool as of the end of the month preceding such notice.
   b. The College will give the Foundation 12 months' advance notice for redemptions of between 1% and 3% of the market value of the unified investment pool as of the end of the month preceding such notice.
   c. The College will give the Foundation 24 months' advance notice for redemptions of 3% or more of the total market value of the unified investment pool as of the end of the month preceding such notice.

<u>Amendment and Termination of This Memorandum of Understanding:</u>

This Memorandum of Understanding may be amended at any time by mutual written agreement. Either party may terminate this Memorandum of Understanding, with or without cause, with 24 months' advance written notice to the other party. In the event either party gives such notice, the parties during the notice period shall endeavor in good faith to agree on how the three categories of funds comprising the unified investment pool shall be owned, possessed, and managed after the effective date of termination.

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution passed at a regular meeting of the Board of Trustees, the governing body of Earlham College, held on the ________ day of _______, 20__, at Richmond, Indiana.

_____________________________________

Chair of the Board of Trustees of

Earlham College

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution passed at a regular meeting of the Board of Directors, the governing body of Earlham Foundation, held on the ________ day of _______, 20__, at ______________.

_____________________________________

President, Earlham Foundation