The Statue of Liberty – Ellis Island Foundation Endowment

New York, New York

Investment Policy
Policy 6-1

Revised:

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Investment Policy Statement for the Management of
the Assets of The Statue of Liberty – Ellis Island Foundation Endowment

I. Statement of Purpose

This statement is set forth to govern the management of The Statue of Liberty – Ellis Island Foundation, Inc.'s (the "Foundation") Endowment (the "Endowment"). This is an area of particular responsibility for the Board of Directors, and more specifically its appointed Investment Committee (the "Committee"), which is designated to exercise appropriate oversight with respect to the prudent investment of the Endowment's assets in accordance with the long-term objectives of the Foundation.

The Endowment's Investment Policy ("The Policy") has been established to provide a general framework for the management and investment of the Endowment's assets. The Committee, in turn is authorized to adopt specific investment objectives (See Investment Objectives & Guidelines) to help ensure that the Endowment's assets are financially managed in the best interests of the Foundation, at an economical cost.

II. Investment Philosophy

The overall philosophy concerning the investment of the Endowment's assets is to achieve investment returns sufficient to meet its current spending target (currently set at a target 5.0%) while seeking to preserve principal, both in absolute terms and real terms (adjusted for inflation).

Because the Foundation is a long-term investor, the following issues are significant factors in the prudent allocation of the Endowment:

- In order to achieve a rate of return that will support the Foundation Spending Policy while protecting the Endowment's assets from inflation, the Foundation must be willing to take some investment risk.

- The Foundation believes the most effective way to establish an appropriate volatility level for the Endowment is through its asset allocation (i.e. stocks, bonds, alternative investments and cash). Long term investment return and volatility depend on the Endowment's strategic asset allocation. In consultation with the Consultant, a strategic asset allocation policy has been adopted which best balances the opportunity for achieving the investment return objectives as set forth in this policy with an appropriate volatility level.

- There is significant evidence that long-term investors do not benefit from attempting to earn returns through short-term asset class forecasts or market timing. As a result, the Foundation has adopted a strategic long-term asset allocation. Over time, the Endowment will remain invested in percentages that approximate those called for in the strategic allocation.

- The Foundation believes in the long-term benefits of diversifying the Endowment's assets into a number of different asset classes and investment strategies. While each asset class and strategy is carefully selected, the focus of the investment process is always on the overall Endowment.

- To achieve the long-term benefits of a widely diversified Endowment, the Foundation has adopted strategic targets for each asset class that it utilizes. It expects that the Endowment's weight for each asset class will remain within minimum and maximum percentages. The current strategic asset allocation including targets is outlined in Addendum A to this Policy.

- Within each asset class, the Foundation seeks to earn the most efficient rate of return possible (after investment expenses). Investments will be well diversified by investment style and strategy. Style/strategy diversification will increase the probability over three to five year periods of time that the

Foundation will achieve its investment goals and reduce volatility. The Foundation has adopted specific requirements and restrictions for each asset class. These are described in Addendum B to this Policy.

III. Overview

The Endowment's objective is to provide an annual earnings cashflow to assist in covering the costs of items related to improving or maintaining the visitors' experience at Liberty and Ellis islands. The current spending target is set at 5.0% of assets (the assets are valued using a trailing three year average). Though the earnings of the Endowment are needed to meet short-term spending needs, the Endowment itself should be long-term in nature.

In order to evaluate the performance of its managers over shorter time periods, the Foundation has also adopted a market driven benchmark for each manager. For the Endowment as a whole, the Target Benchmark ("Benchmark") will consist of a suitable index for each asset class used. These indices will be weighted on a monthly basis according to the Foundation's strategic asset allocation targets listed in Addendum A. Addendum C defines the current Benchmark.

The Endowment's assets will be allocated to a diversified portfolio of equity investments, fixed income securities, and cash equivalents. Though the overall fund will be long-term in nature, a limited amount of liquidity should be maintained to meet near-term needs. (see Investment Guidelines)

The management of the Endowment shall follow "the "prudent investor" rule. This rule reads in part:

> All that can be required of a trustee is that he/she shall conduct himself/herself faithfully and exercise sound discretion. He/She is to observe how men and women of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to permanent disposition of their funds.

This rule may be observed through the use of what is referred to as the "total return concept". In essence, a prudent person will seek high total returns from investments by means of both cash income and capital gains.

IV. Endowment Management

The responsibilities regarding the investment of the assets will be as follows:

1. **Board of Directors:** The Board is responsible for the investment policies of the Endowment. To effectively carry out its responsibilities, a board committee, the Investment Committee, has been established to, among other things, recommend investment guidelines and objectives for the Board's approval.

2. **Investment Committee:** The Committee, with Board approval, shall establish broad guidelines for the investment of the Endowment's assets, select the investment managers, and determine asset allocations that achieve the Endowment's objectives. Quarterly, the Committee will review the Endowment's performance and activity in regard to compliance with the stated guidelines and objectives.

3. **Staff:** Though the Committee will oversee the management of the Endowment investment assets, the Vice President/Controller will communicate with the investment manager(s) and investment consultant(s) on regular and routine matters and will communicate with the Committee as developments dictate throughout the year.

4. **Investment Managers:** The Endowment has decided to utilize one or more professional asset managers *(qualified in terms of federal registration with the SEC, experience with similar responsibilities, and a proven performance history)* for the management of the investment assets. These assets are to be managed in a manner that would comply with the "Prudent Person" rule

concerning fiduciary oversight of assets. The investment managers will have discretion to manage the assets within the guidelines stated in this policy.

5. **Custodians:** One or more custodians will be used to provide safekeeping for the investment assets, collect income and proceeds, assist in the timely and accurate filings of all corporate actions involving the assets under its control, and to provide timely and accurate accounting statements.

6. **Investment Consultants:** The Endowment may at times utilize an independent consultant to assist in the oversight of the investment assets. The Consultant will advise the Committee in setting investment objectives, asset allocation targets and investment constraints. Additionally, the Consultant will provide performance and risk measurement, evaluating the efficiency of the Endowment's investment structures, perform ongoing evaluations of the suitability of the investment managers and custodians, and be proactive in making recommendations that are intended to assist the Endowment in meeting its investment objectives. It is expected that the Consultant will assist the Vice President/Controller in the day to day oversight of the investments, and provide advice and counsel to the Staff and Committee as needed.

Manager Evaluation: The basis by which the Committee evaluates the performance of the manager(s) will be the manager's success in achieving the Endowment's investment objectives, as well as evaluations of the managers' performance in comparison with their peers. In addition, the Committee may from time to time reevaluate whether a particular manager's investment style (e.g., core, growth, value) is best suited to achieving those objectives. Although the manager(s) will be monitored and reviewed on a quarterly basis, the long term nature of the funds dictate that the manager(s) should ordinarily be evaluated on their contribution to achieving the Endowment's objectives over a three-year time horizon. If, however, the manager(s) should deviate from the Endowment's guidelines, and/or significantly under-perform versus similar asset managers and/or their benchmark index, an interim evaluation may be appropriate. Additionally, if a management firm changes ownership, management personnel, investment philosophy, investment style, or any factor that could materially affect the firm's performance, an interim evaluation may be necessary.

This policy recognizes that it may be necessary or justified to allow the manager(s) of the investments to exceed the strict parameters of this policy. In this situation, it is only the Committee that may approve such divergence from the policy.

V. Management Fees and Related Costs

The costs of managing the Endowment's assets should be competitive within the marketplace of similar investment portfolios. All fees, be they management related or custody related, should be negotiated and monitored to insure that the Endowment is not overpaying for services. Transaction fees, brokerage commissions, and security mark-ups should be within the norms for institutional accounts of similar trading volume. Though the allocation of trades will be left up to the Endowment's manager(s), it should be understood that best execution, at the lowest reasonable cost, is expected.

VI. Review

This investment policy should be reviewed at least annually. If any material changes occur within the portfolio or regarding the needs for the funds, a review of the investment policy should be conducted immediately.

Addendum A

The Statue of Liberty – Ellis Island Foundation Endowment

<u>Asset Allocation</u>

The Endowment will incorporate a multi-class, multi-style investment management system, whereby each manager or management firm will be assigned a portfolio segment or asset class that is consistent with its area of expertise and proven strengths. It is understood that more than one segment or asset class may be assigned to a single management firm that has a demonstrated capability in each of the segments or classes assigned to it. These portfolio segments will allow for differing investment styles and the diversification of assets.

Decisions concerning diversification of assets among the multiple asset classes (i.e. domestic equity, international equity, fixed income, and cash equivalents) will be the responsibility of the Committee.

<u>Asset Allocation Targets for the Endowment</u>
The Committee has established basic asset allocation targets based on the Endowment's spending needs and risk tolerance. The allocation targets will be reviewed at least annually, focusing on any changes in the financial needs of the Endowment. Additionally, the targets will be reviewed periodically, to ensure that the allocations remain relevant with market characteristics. Divergence from the targets, due to changes in market value, will be adjusted at least semi-annually.

Asset Class	Current Target
Large Cap Equity	37.0%
International Equity	15.0%
Emerging Markets Equity	5.0%
Long/Short Equity	7.0%
Multi-Strategy	5.0%
Fixed Income	23.0%
Commodities	8.0%

The investment manager and/or consultant is required to report to the Vice President/Controller and/or Committee if investment allocations violate the above noted parameters. It is planned that the asset allocation will be reviewed at a minimum annually with the investment consultant.

Addendum B

The Statue of Liberty – Ellis Island Foundation Endowment

Asset Class Definitions/Guidelines

Domestic Equity

1) The domestic equity portfolio will be diversified according to economic sector, industry, number of holdings and other investment characteristics. However, it is recognized that any actively managed portfolio will not be as diversified as the market. To produce overall diversification, equity managers will be selected to employ different management strategies that together achieve the desired degree of diversification.

2) Domestic equity managers are permitted to hold up to 15% of their portfolio in American Depository Receipts ("ADRs") or foreign domiciled companies whose equity securities are traded in US markets.

3) No more than 5% at cost or 10% at market of a manager's portfolio may be held in the securities of a single issuer.

4) Short selling of securities is prohibited. This restriction does not apply to the hedged equity managers.

5) Derivative instruments such as financial futures and options may not be used without the prior approval of the Committee. This restriction does not apply to the hedged equity managers.

6) A manager may only deviate from these guidelines with advance written permission of the Foundation.

International Equity

The following definitions may be used to distinguish between developed and emerging international securities.

International Developed Equity: Listed equity securities traded on developed non-U.S. markets. Developed markets are defined as those included in Morgan Stanley's EAFE index, plus Canada.

Emerging Markets Equity: Listed equity securities traded on emerging non-U.S. markets. Emerging markets are defined as any market that is not included in Morgan Stanley's EAFE index, plus Canada.

All restrictions listed above for Domestic Equity, other than the restriction as to ADRs in paragraph 2 above, also apply to International Equity with the following additions and modifications.

1) Managers must hold securities in a minimum of three countries at all times.

2) Currency exposure may only be hedged back to the US dollar. The decision to hedge is left to the manager's discretion. Derivative instruments may be used to achieve currency hedging as permitted under this Policy.

Fixed Income

1) The duration of a manager's portfolio should be within 80% and 120% of the duration of the applicable Benchmark.

2) Managers are permitted to invest in the following classes of fixed income securities:

a) Bonds or notes issued by the U.S. Government or a U.S. Government agency backed by the full faith and credit of the US Government

b) Mortgage-backed securities

c) Corporate bonds issued in the U.S. and denominated in U.S. dollars

d) Asset-backed securities

e) Below investment grade corporate debt both in the US and Globally. High yield coupon debt and floating rate bank debt are both allowable

f) Non-US Government/Sovereign debt

3) Aggregate bond managers are expected to maintain an average quality rating for their portfolio that does not fall below an S&P rating of AA-. High yield bond managers are expected to maintain an average quality rating for their portfolio that does not fall below an S&P rating of B-.

4) No more than 5% at market of a manager's portfolio may be held in the securities of a single corporate issuer. This restriction does not apply to securities issued by the U.S. Government or a U.S. Government agency backed by the full faith and credit of the U.S. Government.

5) Derivative instruments may be utilized by a manager in order to obtain more efficient exposure to a specific type of security. However, at no time may derivative instruments be used to leverage a manager's portfolio. In addition, it is expected that a manager will have thoroughly tested the behavior of the derivative instrument under a variety of market conditions before purchasing the security for the portfolio.

6) A manager may only deviate from these guidelines with advance written permission of the Foundation.

Alternative Investments

In order to enhance the Endowment's results, the Foundation may elect to invest in alternative investment strategies such as hedge funds or private equity. At present, absolute return hedge funds, hedged equity hedge funds, private equity and managed futures are included in this category. These investments are made with the intention of raising the Endowment's returns and/or lowering total volatility. In most cases, these investments will be implemented through the use of limited partnerships. Therefore, restrictions are established by the offering documents for each partnership.

Addendum C

The Statue of Liberty – Ellis Island Foundation Endowment

Target Benchmark

The Target Benchmark for the Foundation is based on its strategic asset allocation using suitable market indices to represent each asset class. This custom index is calculated on a monthly basis using the weights listed below.

Asset Class	Weight	Market Index
Large Cap Equity	37%	S&P 500
International Equity	15%	MSCI EAFE
Emerging Markets	5%	MSCI Emerging Markets
Aggregate Fixed Income	23%	Barclays Capital Aggregate
Long/Short Equity	7%	S&P 500
Multi-Strategy	5%	T-Bills + 5%
Commodities	8%	DJ AIG Commodity Index

Managers within each asset class will be measured against a specific style benchmark along with the market benchmark for their asset class that is set forth above.