THE OSA FOUNDATION
INVESTMENT POLICY STATEMENT

FOR ENDOWMENT AND NON-ENDOWMENT FUNDS

October 2010

Introduction

This Investment Policy Statement ("IPS") has been adopted by the Board of Directors of The OSA Foundation (the "Foundation") to provide guidelines for the investment of both endowment and non-endowment funds held by the Foundation (the "Funds"). This IPS does not include guidelines for the management or investment of funds held for the Foundation's current operations.

The Foundation was incorporated on May 19, 2002 to support philanthropic activities that help forward The Optical Society's mission to promote the generation, application and archiving of knowledge in optics and photonics and to disseminate this knowledge worldwide. The Foundation concentrates its efforts in four areas:

- Advancing youth science education;
- Providing optics education and resources to underserved populations;
- Offering career and professional developments resources; and
- Awarding, honoring and recognizing technical and business excellence.

The Board of Directors ("Board") has determined that the Funds are "institutional funds" and that a portion of the Funds are also "endowment funds" as those terms are defined in the Uniform Prudent Management of Institutional Funds Act adopted by the District of Columbia in 2008.

The Funds include the assets held in the Foundation portfolio and in the Foundation Awards Endowment Portfolio (also collectively, the "Portfolios"). The specific purpose and sources of funds in each portfolio are:

PORTFOLIO	PURPOSE	FUNDING SOURCES
Foundation	To fund the program needs of the Optical Society over the very long term.	21st Century Campaign Fund/ /Board Designated Award Funds/Restricted Funds/Optical Society Matching Funds
Foundation Awards Endowment	To fund the stipends and awards required of each endowment.	Donations

Review and Selection of Investment Advisors

It is anticipated that one or more registered investment advisors may be engaged to manage portions of the Funds. Prior to engaging a new, or replacing a current, registered investment advisor, the Investment Subcommittee shall review the candidate(s) and make a recommendation to the Finance Committee. The Finance Committee shall select one or more registered investment advisors. At least annually, the Finance Committee, assisted by Foundation staff, shall assess the performance of each portfolio's registered investment advisor and approve or reject renewal of each advisor's contract. The Finance Committee shall report all registered investment advisor selections, rejections and changes to the Board of Directors.

Standard of Conduct in Managing and Investing the Funds

1. Subject to the intent of a donor expressed in a gift instrument, in managing and investing the Funds, the Board, and each registered investment advisor engaged to manage a portion of the Funds, shall consider the charitable purposes of the Foundation and the purposes of the Endowment Funds, and shall manage and invest the funds in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.
2. In managing and investing the Funds, the Board shall incur only costs that are appropriate and reasonable

in relation to the assets, the purposes of the Foundation, and the skills available to the Foundation, and shall make a reasonable effort to verify facts relevant to the management and investment of the Funds.

3. Management and investment decisions about an individual asset shall not be made in isolation, but rather in the context of the portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Funds and the Foundation.

4. Except as otherwise provided by a gift instrument, in managing and investing the Funds, the Board, and each registered investment advisor engaged to manage a portion of the Funds, shall consider the following factors, if relevant:

   A. The needs of the Foundation to both make distributions and preserve capital,

   B. Other resources available to the Foundation,

   C. The role that each investment or course of action plays within the overall investment portfolio,

   D. The expected total return from income and the appreciation of investments,

   E. The expected tax consequences, if any, of investment decisions or strategies,

   F. The possible effect of inflation or deflation,

   G. General economic conditions, and

   H. An asset's special relationship or special value, if any, to the charitable purposes of the Foundation.

Guidelines for Management and Investment of Funds

INVESTMENT OBJECTIVE

Through investment of the Funds, the Foundation seeks to generate sufficient income to meet annual cash flow needs, to preserve the value of current assets, and to generate long-term total returns that meet or exceed both the rate of inflation (as measured by the CPI) and the returns of the total portfolio custom benchmark, without undue exposure to risk, as defined below.

Since it is understood that fluctuating rates of return are characteristic of securities markets, and that short-term market fluctuations may cause significant variations in portfolio performance, the investment objective and portfolio performance will be evaluated over rolling five-year periods or "market cycles (4 – 6 years)."

Risk

Risk is the likelihood that the Funds may lose principal and/or not attain their investment objectives.

INVESTMENT GUIDELINES

The Funds shall be invested in equity and fixed income securities, including mutual funds and exchange traded funds, other than those identified as Prohibited Investments.

Equities

The equity asset classes should be maintained at risk levels roughly equivalent to the sectors of the market represented, with the objective of meeting or exceeding the returns of a custom benchmark made up of industry-recognized indexes measuring the performance of the designated market segment over rolling five-year periods, net of fees and commissions. Mutual funds conforming to the policy guidelines may be used to implement the investment program. In cases where comparable investment opportunities are not available from mutual funds or individual stocks, the Portfolios may invest in exchange traded funds and/or closed-end funds.

The Portfolios will be structured to provide market exposure to value and growth styles in both U.S. and non-U.S. markets. International equity exposure shall constitute between 10% and 30% of the total equity position at market value.

Fixed Income

Investments in fixed income securities will be managed to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. The fixed income asset classes should be maintained at risk levels roughly equivalent to the market segments represented, with the objective of meeting or exceeding the returns of a custom benchmark made up of industry-recognized indexes measuring the performance of the designated market segment over rolling five-year periods, net of fees and commissions. Mutual funds conforming to the policy guidelines may be used to implement the investment program. In cases where comparable investment opportunities are not available from mutual funds or individual bonds, the Portfolios may invest in exchange traded funds and/or closed-end funds.

If fixed income investments are made through mutual funds, the portfolio of mutual funds will be managed to capture a range of maturities and credit qualities, while providing diversification across issuers.

If balanced mutual funds or exchange traded funds are used, the equity percent shall be allocated to the equity segment of the portfolio and the fixed income percent shall be allocated to the fixed income segment of the portfolio.

Asset Class Target Ranges

The percentage of total portfolio assets to be allocated between equities and fixed income/cash shall fall within the following ranges, with the specific target percentages to be determined by the Investment Subcommittee:

Asset Class	Minimum Target	Maximum Target
Equities	50%	70%
Fixed Income and Cash Equivalents	30%	50%

Over time, each portfolio’s actual allocation of assets may vary from its target allocation due to market conditions. The investment advisor shall rebalance each portfolio back to target at least every twelve to eighteen months unless the Investment Subcommittee, after consultation with the investment advisor, determines otherwise.

Diversification

The Portfolios shall be diversified. Diversification provides reasonable assurance that no single security or class of securities will have disproportionate impact on the total portfolio.

Individual stocks are subject to maximum 5% commitment at cost or 7% commitment of the account's market value for an individual security and 25% at cost for a particular industry.

Individual bonds not guaranteed by the U.S. Government, its agencies or instrumentalities are subject to a maximum 5% commitment at cost.

Individual mutual funds, exchange traded funds and closed-end funds are subject to a maximum 40% commitment at market value, per fund. To maintain proper diversification among industries, no more than 5% of the total portfolio value, at cost, may be invested in a particular sector fund.

Prohibited Investments

There shall be no direct investments in any of the following:

- Private Placements,
- Lettered Stock or Restricted Stock,
- Individual options contracts. However, to the extent that the Foundation uses mutual funds the mutual funds may buy or sell option contracts for the purposes of managing portfolio risk,
- Individual securities whose issuers have filed a petition for bankruptcy,
- Commodities or commodity contracts,

- Short sales, and
- Margin transactions.

For purposes of this investment policy, "direct" investing excludes the buying and selling of shares of mutual funds, exchange traded funds, and closed-end funds.

MONITORING OF INVESTMENT OBJECTIVES AND PERFORMANCE REPORTING

The Portfolios will be monitored on a regular basis for consistency in investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. It is understood that, over the long run, the allocation between equity and fixed income may be the single most important determinant of total portfolio return.

The Portfolios are evaluated quarterly on a total return basis. Returns are compared to:

1. The Consumer Price Index ("CPI"),
2. The three month Treasury Bill Index (the risk-free proxy),
3. Relevant nationally-recognized indexes which most accurately reflect the agreed-upon actual portfolio allocation, and
4. Custom benchmarks made up of nationally-recognized indexes representing domestic and international fixed income markets, and domestic and international equity markets.

Total Portfolio Performance

The Foundation expects each portfolio, in the aggregate, to achieve total returns, net of fees, over rolling five-year periods, that:

- Meet or exceed the change in the Consumer Price Index, and
- Meet or exceed the returns of the total portfolio custom benchmark agreed-upon by the Foundation and its investment advisor.

The total portfolio custom benchmark is made up of relevant market indexes that most accurately reflect the agreed-upon actual portfolio allocation and sector weightings. It is understood that the total portfolio custom benchmark assumes full investment for the indicated time period and does not reflect fund expenses, transaction costs, or differences due to shifting of fund portfolio holdings during the investment period.

In addition to evaluating the performance of the Portfolios as a whole, the Foundation shall separately evaluate the performance of the equity and fixed income segments of each portfolio.

Equity Segment Performance

The U.S. equity segment is expected to achieve total returns, net of fees, over rolling five-year periods that meet or exceed the custom domestic equity benchmark.

The non-U.S. equity segment is expected to achieve total returns, net of fees, over rolling five-year periods that meet or exceed the custom international equity benchmark.

The domestic equity and international equity custom benchmarks are made up of relevant market indexes that most accurately reflect the agreed-upon actual portfolio allocation and sector weightings. It is understood that both custom equity benchmarks assume full investment for the indicated time period and do not reflect fund expenses, transaction costs or differences due to shifting of fund portfolio holdings during the investment period.

Fixed Income Segment Performance

The fixed income segment is expected to provide stability of principal and a relatively stable rate of return. The fixed income segment is expected to achieve total returns, net of fees, over rolling five-year periods that meet or exceed the custom fixed income benchmark.

The custom fixed income benchmark is made up of relevant market indexes that most accurately reflect the agreed-upon actual portfolio allocation and sector weightings. It is understood that the custom fixed income benchmark assumes full investment for the indicated time period and does not reflect fund expenses, transaction costs or differences due to shifting of fund portfolio holdings during the investment period.

Reporting

Each investment advisor shall report the following to the Treasurer at least quarterly:

- Total return net of all commissions and fees, for the last quarter, year-to-date, latest 12-month, 3-year, and 5-year periods, and since inception, for each portfolio as a whole, and separately for the equity and fixed income segments, and for relevant industry-recognized indexes and custom benchmarks,
- Contributions to and withdrawals from the Portfolios during the quarter,
- Purchases and sales during the quarter, and
- Current portfolio holdings at cost and at market value.

Additionally, each investment advisor must inform the Treasurer of any change in firm ownership, organizational structure, professional personnel, account structure (e.g. number, asset size and account minimums), or fundamental investment philosophy.

The Treasurer compiles this information into a report for presentation to the Board of Directors at its next meeting.

TREATMENT OF CONTRIBUTED ASSETS

The Treasurer and CEO shall confer and determine the appropriate disposition of any assets contributed to the Funds in a form other than cash. These decisions shall be reported to the Investment Subcommittee at its next meeting.

<u>Review of IPS</u>

To ensure that this IPS remains consistent with the mission of the Foundation and accurately reflects its current financial condition, this IPS shall be reviewed annually by the Investment Subcommittee. The Investment Subcommittee recommends revisions or modifications to the Finance Committee which, in turn, reviews those recommendations and makes final recommendations to the Board of Directors for action.