SIERRA CLUB FOUNDATION

INVESTMENT POLICY STATEMENT

Updated May 2018

Sierra Club Foundation is committed to an impact-driven portfolio that generates market rate returns and advances our mission to educate and empower people to protect and improve the natural and human environment.

Sierra Club Foundation promotes climate solutions, conservation, and movement building through a powerful combination of strategic philanthropy and grassroots advocacy. We believe our fiduciary obligation encompasses prudent oversight and investment of funds as well as a responsibility to manage those funds in a manner consistent with our mission and values.

We partner with individual and institutional donors to align financial resources with strategic outcomes, provide flexible funding for innovation, build capacity in the environmental movement for more equitable investments, and create partnerships with a broad spectrum of allied organizations around shared values and goals. As the fiscal sponsor of the charitable programs of the Sierra Club, we provide funding to it and other nonprofit organizations to support scientific, educational, literary, organizing, advocacy, and legal programs that further our goals.

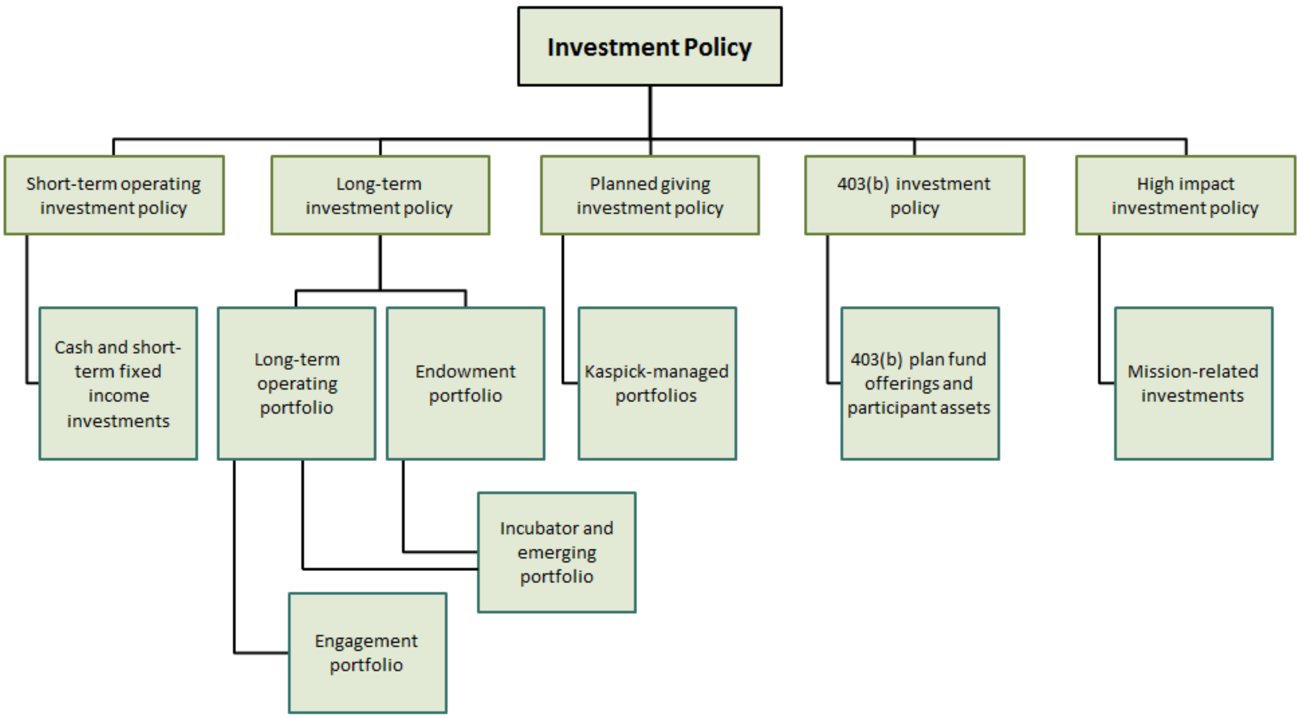
Statement of Purpose

The purpose of this Investment Policy Statement is to provide an overview of the vision, values, investment objectives, and philosophy of the Sierra Club Foundation (hereinafter, "Foundation"). This document, in conjunction with other internal guidelines, describes the standards used by the Foundation's Investment Committee (hereinafter, "Committee") to select investments and monitor performance.

The Foundation maintains the following investment portfolios:

- ➔ The ***Endowment Portfolio*** is invested for total return to preserve purchasing power over full market cycles and to provide for the annual program spending of the Foundation. A portion of the Endowment Portfolio invests in emerging managers and strategies aligned with the Foundation's mission. This portfolio may assume a higher level of operational and performance risk.
- ➔ The ***Long-Term Operating Portfolio*** is also invested for total return in a manner to build a hedge against inflation over full market cycles and is intended to be used only when short-term funds are not sufficient to meet liquidity needs. A portion of this portfolio is also devoted to mission-aligned investments in emerging managers and strategies.
- ➔ The ***Planned Giving Portfolio*** contains gifted assets in which the Foundation has a residual interest. These are invested to meet payout requirements of the trust or annuity, minimize beneficiary tax impact, and provide the maximum remainder value to the Foundation.
- ➔ The ***Short-Term Operating Portfolio*** is invested to achieve reasonable current income with capital preservation and minimum market volatility.
- ➔ The ***High Impact Portfolio*** is an allocation for investments in organizations with the potential to achieve high positive impact by (1) empowering people and their communities and/or (2) developing and implementing innovative and disruptive technologies or business models. The Fund's investments may include (a) deploying and scaling clean renewable energy, energy storage, and energy efficiency solutions; (b) enhancing equitable access to affordable clean energy and to clean air and clean water; (c) protecting natural resources; (d) creating good jobs and adjusting to and benefiting from the transition to a low carbon economy; and (e) mitigating, remediating, and improving resiliency and ability to adapt to climate change. The High Impact Portfolio may generate below-market returns but is expected to achieve a portfolio-wide positive return on capital, so that funds can be redeployed into additional high impact opportunities.

The Foundation maintains updated investment-policy guidelines for each of these portfolios that provide further detail on specific objectives, strategies, and asset allocation.



STATEMENT OF VALUES

The Foundation believes that:

- ➔ All humanity should benefit from clean air and water and access to the life affirming impact of experiences in nature.
- ➔ A diverse, inclusive environmental movement should reflect and represent today's public.
- ➔ Investing in young people today is critical to creating the better world of tomorrow.
- ➔ Financial capital can drive change and support innovations that create a truly sustainable and inclusive economy resulting in healthy communities with good-paying jobs.
- ➔ We can create a more sustainable and equitable world by strategically managing our financial assets to help accelerate a global transformation to a clean-energy future for all.
- ➔ We can support solutions to the climate crisis by forging partnerships with asset managers, non-profits, foundations and businesses.

HISTORY

Beginning in 2010, the Committee transitioned the Foundation's equity holdings in the operating and endowment portfolios to funds that met environmental, social, and governance (ESG) criteria. In 2013, the Board of Directors elected to divest from holdings in fossil-fuel companies and reinvest those assets in companies advancing climate and clean-energy solutions -- a decision that was based on our goal to align our investments with our mission. We also believe fossil-fuel companies have a significant downside risk because they may hold "stranded assets." In a carbon-constrained world that faces increasingly severe climate disruption, these companies will not be able to utilize these reserves. This commitment led to the Foundation being one of the initial signers to the Divest-Invest Philanthropy Initiative in January 2014 and a participant in the White House Clean Energy Summit in June 2015, where we announced our commitment to clean-energy investments that accelerate the transition to a clean-energy economy by 2050. In 2017, the Foundation began aligning its Planned Giving Portfolio with its mission through investments in ESG funds. In 2018, the Foundation broadened its scope in terms of mission-related investments beyond purely climate-related concerns and incorporated environmental justice and social equity into its investment decision-making process. It also developed a plan and laid the groundwork for a new High Impact Portfolio. Across the endowment and operating portfolios, we continue to prioritize mission-aligned investing without compromising the Foundation's strategy to achieve superior long-term performance while moderating risk.

INVESTMENT PHILOSOPHY AND STRATEGY

The Foundation's investment strategy is to achieve superior long-term performance in mission-aligned investments while moderating financial risk in order to maximize the resources available to meet the mission objectives of the Foundation. Fund managers are selected based on their expertise in each of the asset classes, with priority given to those who can best help the Foundation achieve its goal of mission-aligned investments. We also utilize screens that are consistent with our commitment to exclude fossil-fuel companies and include investments in just and equitable climate solutions.

The Foundation will maintain no holdings in companies with fossil fuel reserves and will seek to minimize exposure to pipelines, field services and other companies whose revenues are primarily derived from the fossil-fuel industry. (However, the Foundation may hold minimal direct ownership in these companies in a separate engagement account for the purposes of shareholder activism.) In addition, as consistent with its mission, the Foundation will consider broader ESG factors and seek to invest in those companies that are actively working to address their greenhouse gas emissions, comply with ESG best practices, and incorporate sustainability into their businesses. Working with investment managers, the Foundation also seeks to ensure that proxy voting is in line with its mission and to engage where possible in line with the mission.

The Foundation recognizes that many investment strategies that are in alignment with the Foundation's mission are relatively new and, as such, less proven in the long term. Further, the Foundation recognizes that many newly established investment-management firms focusing on climate solutions and environmental justice may have shorter track records and lower assets under management as compared to other investment managers the Foundation utilizes. To assist with advancing its mission and investment strategy, the Foundation allocates a portion of the Endowment and Long-Term portfolios to emerging managers of mission-aligned investments. These investments are expected to earn market-rate returns.

Through its High Impact Portfolio, the Foundation also invests a portion of its assets in high-impact investments with substantial potential social, environmental, and/or community-level economic impacts and charitable benefits that justify a lower-than-market-rate financial return or a higher risk profile. The High Impact Portfolio may generate below-market returns but is expected to achieve a portfolio-wide positive return on capital, so that funds can be redeployed into additional high impact opportunities. The primary purpose of investments made through the High Impact Portfolio is to accomplish one or more of the Foundation's charitable purposes (impact first) rather than the production of income or appreciation of property (return first).

Shareholder Engagement

Either directly or through its investment managers, the Foundation seeks to increase its impact through dialogue, letter writing, and joint investor statements. It also seeks to engage in shareholder resolutions and proxy voting in accordance with the Foundation's mission and goals. The Foundation may also at times own individual stocks that are in clear conflict with the values and mission of the Foundation (*oil and coal companies, for example*) in order to have an opportunity to voice concerns with company management.

Fiduciary Duty

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act

(UPMIFA). UPMIFA requires fiduciaries to apply the standard of prudence, which includes the portfolio approach to investment management: "Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the institutional fund's portfolio of investments as a whole and as a part of an overall investment strategy." All investment actions and decisions must be based solely on the interest of the Foundation, including its charitable purpose and mission. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests. When exercising ordinary business care and prudence in deciding whether to make an investment, Foundation managers must consider all relevant facts and circumstances, including the relationship between a particular investment and the Foundation's charitable purposes.

As further summarized for the purposes of this Investment Policy Statement, UPMIFA states that the Committee is under duties of care and good faith to the Foundation to manage the Foundation's endowment as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires that the exercise of reasonable care, skill, and caution be applied to investments -- not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy that reasonably suits the risk and objectives of the Foundation. In making and implementing investment decisions, the Committee has a duty to incur only reasonable and appropriate costs, to make a reasonable effort to verify relevant facts, to diversify the investments unless, under special circumstances, the purposes of the Foundation are better served without diversifying, and, after receiving property, to rebalance or to take other actions to ensure that the Foundation's portfolios meet their guidelines and policies and the Foundation's requirements.

The duties of care and good faith also require the Committee to act with prudence in deciding whether and how to delegate authority in the selection and supervision of agents, and whether costs incurred are reasonable and appropriate. In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality.

The Committee believes that its practices of including ESG criteria in selecting investments and fossil fuel divestment are consistent with its fiduciary obligations. In fact, as noted above, UPMIFA requires that the Foundation's fiduciaries, when managing its investments, take account of the Foundation's charitable mission and consider the relationship between the Foundation's charitable mission and particular investment assets.

Liquidity Needs

The Foundation will maintain sufficient liquidity to ensure little or no disruption to ongoing operations of the Foundation and intended spending levels to fund charitable programs of the Sierra Club and other organizations.

Asset Allocation

A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the total impact to the Foundation, not on a stand-alone basis.

For each portfolio, the target asset allocation is designed to provide a target total return, while avoiding undue risk concentrations in any single asset class or category. The asset allocation for each of the Foundation's portfolios is detailed in its respective investment-guideline document.

The Committee monitors the asset-allocation strategy of each portfolio and periodically rebalances as needed to stay within allowable ranges for each asset category.

Portfolio Characteristics

This chart provides an overview of key characteristics of each portfolio.

	Short-Term Operating	**Long-Term Operating**	**Endowment**	**Planned Giving**	**High Impact**
Time Frame	Short	Long	Long	Long	Long
Risk Tolerance	Very Low	Moderate	Moderate	Moderate	High
Liquidity Needs	Very High	Moderate	Moderate	High	Low
Volatility	Very Low	Moderate	Moderate	Moderate	High
Return Requirements	Protection of Principal	Market Return	Market Return	Market Return	Positive Return on Capital
Fossil Fuel Assets	None	None	None	Limited	None
Carbon Intensity	Low	Low	Low	Low-Medium	Very Low
Climate Solutions	Low	Medium	Medium-High	Medium	High
ESG Criteria	Medium	High	High	Medium	High
Social/ Community Impact	Low	Moderate	Moderate	Low	High

Performance Measurement

With the exception of certain short-term investments such as money market funds in the Short-Term Operating Portfolio, the performance of each portfolio is measured in terms of total return rather than income alone. The Long-Term, Endowment, Planned Giving, and the High Impact portfolios are invested for the long term, but use appropriate market benchmarks to monitor performance over the short term. The benchmarks for each portfolio comprise multiple indices that represent the asset allocation of the pool.

Responsibilities of the Investment Committee

The Committee oversees all portfolios and is responsible for the management of the Foundation's financial assets in accordance with applicable laws, trust documents and internal policies and guidelines to achieve positive impact and mission alignment, preserve invested asset value, and maximize investment return within the appropriate level of risk for each portfolio. Specific responsibilities include:

- Establish and update investment policies and guidelines and communicate these to all appropriate fiduciaries;
- Determine appropriate asset classes and target allocation percentages/ranges to be included as a component of the investment policy and review at least annually;
- Select, evaluate, and terminate qualified investment consultants;
- Select, evaluate, and terminate qualified investment managers and custodians, in consultation with investment consultants, based on investment strategy, process, performance, risk and fees; review their performance results on a quarterly basis; and take corrective action, where necessary;
- Review actual investment allocations on quarterly basis to ensure that they are in compliance with established target ranges;
- Review fund offerings in 403(b) plan annually to ensure that staff has access to well-managed funds with low to moderate fees across all asset classes in accordance with the 403(b) Investment Policy;
- Ensure that conflicts of interest and prohibited transactions are appropriately addressed
- Ensure that investment assets are within the jurisdiction of U.S. courts and are managed and held in a manner that appropriately mitigates the risk of theft and embezzlement.

Responsibilities of the Board of Directors

The investment related responsibilities of the Board of Directors of the Foundation include:

- Appointing appropriately qualified members to the Committee;
- Approving the Foundation's Investment Policy Statements as recommended by the Committee; and
- Reviewing investment reports and Committee minutes on a quarterly basis.

[1] Header photo by Al_HikesAZ (Flickr)