

ROTARY INTERNATIONAL

Investment Information



RI Investment Information

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ROTARY INTERNATIONAL INVESTMENT OVERVIEW

This booklet has been created to summarize Rotary International's current investment structure, policy statements, historical performance, and Board related decisions.

Rotary International has two distinct investment portfolios. The larger portfolio represents the operating reserve of the organization and is referred to as the "General Fund". The smaller portfolio is invested at Bank of America in short-term investments and is used to meet RI's daily cash flow needs. This fund typically maintains a balance equal to one month's expenses and is known as the "Working Capital Fund".

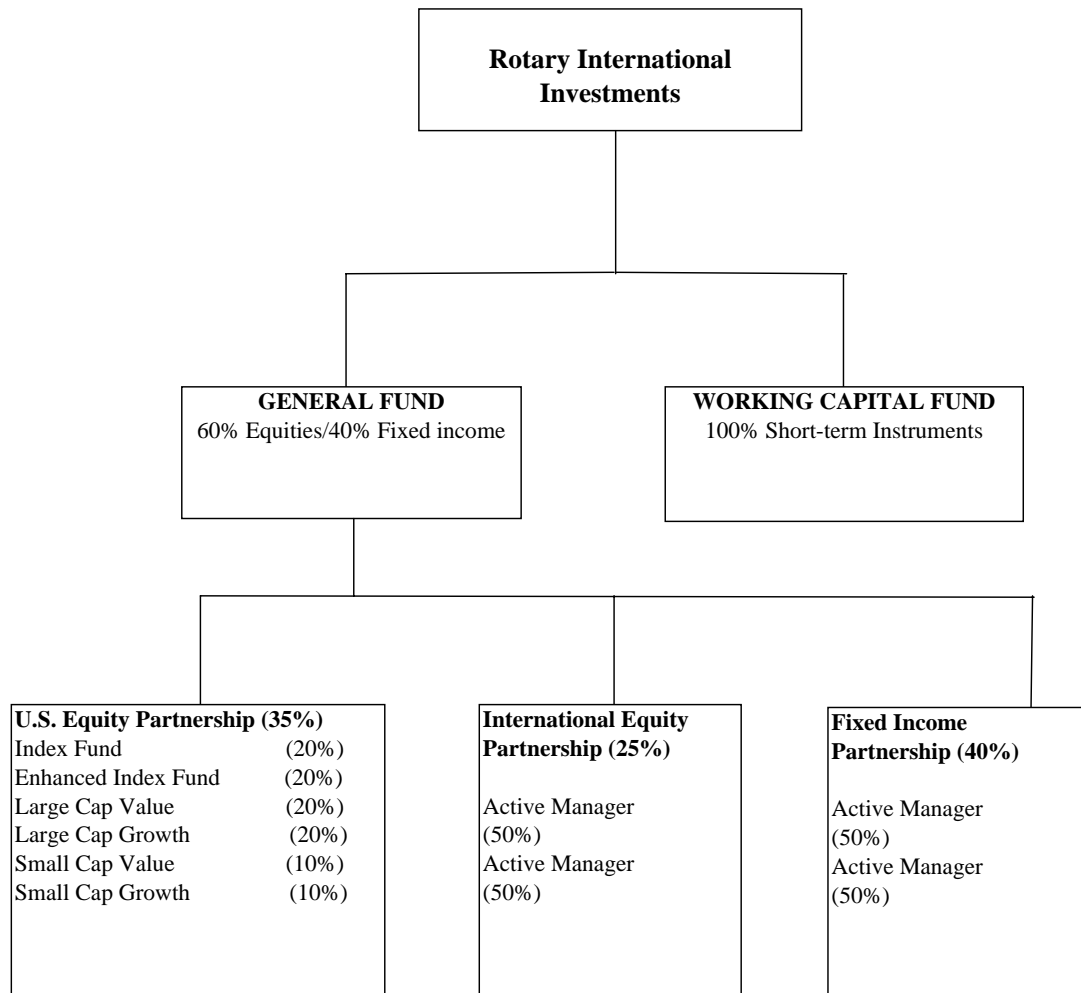
The assets of the General Fund are combined with the assets of the Annual Programs Fund and Permanent Fund for investment purposes. Three investment partnerships were established in fiscal 2000-01 to facilitate the commingling of funds. These vehicles, the U.S. Equity, International Equity, and Fixed Income partnerships operate in a manner similar to mutual funds where RI purchases units in these funds in accordance with its asset allocation policy. By combining assets with TRF, RI is able to benefit from greater diversification and lower fees.

To assist staff and our external advisors in managing these assets, the Board has developed Investment Policy Statements (IPS) for the General Fund, the Working Capital Fund, and the three investment partnerships. These documents outline the guidelines and responsibilities for overseeing and managing Rotary's investments and provide direction on asset allocation, performance objectives, and control procedures. As the General Fund's assets are invested through the partnership structure, the Investment Policy Statements for the three partnerships are an extension of the General Fund's IPS.

Rotary retains an investment consultant, Hewitt Investment Group, to assist in the monitoring of current investment managers and to provide quarterly investment reports. Hewitt also assists Rotary in investment manager searches, as it maintains an extensive database of prospective investment managers and meets with hundreds of investment managers each year.

The Board is ultimately responsible for monitoring Rotary's investments and making policy or manager changes. The RI Finance Committee advises the Board on all investment matters. Typically, the chair and another member of the RI Finance Committee will participate in meetings of the Foundation's Investment Advisory Committee (IAC) when matters affecting both organizations are discussed. The IAC was formed on 1 July 2007, and is comprised of nine members – three Trustees and six Rotarians with investment expertise. This Committee typically meets twice each year to review and discuss investment matters. As Rotary International shares investment managers with the Foundation through the partnership structure, decisions to hire or terminate managers are made jointly with The Rotary Foundation.

ROTARY INTERNATIONAL INVESTMENT STRUCTURE
as of 1 January 2009



**INVESTMENT POLICY STATEMENT
ROTARY INTERNATIONAL GENERAL FUND**

Adopted June 2001, Revised November 2002, May 2003, November 2005, June 2008
and November 2008

Objective of the General Fund

The primary objective of the General Fund, hereinafter referred to as “the Fund”, is to provide for the long-term financial security of Rotary International. The Fund includes Rotary International’s (1) unrestricted cash, plus (2) marketable securities, plus (or minus) (3) any receivable (or payable) from (or to) The Rotary Foundation.

Delegation of Responsibilities

The Board of Directors of Rotary International has responsibility for formulating investment policy; developing investment objectives; retaining, monitoring, and terminating investment managers; and allocating assets among the managers.

The investment managers appointed to execute the policy will invest the Fund in accordance with the Fund’s investment guidelines and the managers’ judgments concerning relative investment values.

The investment consultant is responsible for preparing quarterly investment performance reports, assisting in manager searches, and advising on all investment-related matters.

Staff is responsible for implementing the policies and investment-related decisions taken by the Board.

Allocation of Assets

Over the long-term, the asset allocation policy will be the key determinant of the returns generated by the Fund and the associated volatility of returns. Based on the Fund’s objectives and circumstances, the Board has developed the following asset mix guidelines:

	Percent of Total Fund		
	Minimum	Target	Maximum
U.S. Equities	30%	35%	40%
Non-U.S. Equities	20%	<u>25%</u>	30%
Total Equities	55%	60%	65%
Fixed Income	35%	40%	45%

The Fund will be rebalanced any time an asset class exceeds the minimum or maximum allocation specified above. Routine cash flows will be used to maintain the allocation as close as practical to the target allocations. If routine cash flows are insufficient to maintain the allocation within the permissible ranges as of any calendar quarter-end,

balances will be transferred as necessary between asset classes to bring the allocation back within the permissible ranges.

Investment Manager Structure

To implement its asset allocation policy, the Board has developed the following investment manager structure for the U.S. equity component of the Fund:

<u>Segment of Market</u>	<u>% of Total</u>
Broad Market Index Fund	20%
Enhanced Index Fund	20%
Large Cap Growth	20%
Large Cap Value	20%
Small Cap Growth	10%
Small Cap Value	10%

Investment Guidelines

The Fund will invest in the U.S. Equity General Partnership II, the International Equity General Partnership II, and the Fixed Income General Partnership II of the Rotary Foundation of Rotary International and Rotary International. There are separate manager guidelines for each of these partnerships.

Investment Performance Objectives

The investment objective of the Fund is to achieve a rate of return consistent with the target allocation stated earlier.

Over a three- to five-year period, the rate of return earned by the Fund should exceed the annualized total return of the following custom index:

- Wilshire 5000 Stock Index (35% weight)
- M.S.C.I. ACWI ex-U.S. Index (25% weight)
- Barclays Capital Aggregate Bond Index (40% weight)

For performance evaluation purposes, all rates of return will be examined on a net-of-fee basis.

Diversification

The Fund is to be broadly diversified across several asset classes, so as to limit the impact of large losses from any one asset class on the overall portfolio.

Investment Restriction

The Fund may not invest in commodities or non-exchange traded real estate investment trusts.

Liquidity Needs

Staff shall arrange for cash withdrawals to meet the Fund's spending needs. The source of funds for these withdrawals will be based on rebalancing and cost considerations.

Proxy Voting

The Board has delegated investment management responsibilities to various independent investment managers. The Board delegates the full responsibility to vote proxies to these investment managers. The Board expects each investment manager to vote all proxies prudently and in the interest of the Fund.

Control Procedures

Review of Investment Objectives

The achievement of investment objectives will be reviewed on an annual basis. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of the investment policy. It is not expected that the investment policy will change frequently; in particular, short-term changes in the financial markets should generally not require an adjustment in the investment policy.

Review of Investment Managers

The Board will review results of all managers at least semi-annually. With a perspective toward three-year and five-year time horizons, the Board will evaluate whether each manager has:

- Performed satisfactorily when compared with the specific objectives for its portfolio;
- Produced results that compare favorably to other investment management organizations managing similar portfolios;
- Exceeded the returns of appropriate market indices;
- Made portfolio management decisions that were reasonable and effective in view of capital market developments; and
- Adhered to the relevant policies and objectives.

Among the events that the Board will examine closely in their review of investment managers are:

- Poor results relative to objectives over a fairly short period of time (e.g., one year);
- Poor absolute performance over a three-to-five year period;

- The departure of one or more key investment professionals;
- Violation of an investment guideline; and
- Material changes in the manager's organization, such as philosophical and personnel changes, acquisitions or losses of major accounts, a change in ownership or control of the investment management organization, etc.

The Board will evaluate investment managers and events in light of the current situation and other related factors.

Reporting Requirements

Within six weeks after the end of each calendar quarter, staff and/or the Fund's investment consultant will prepare a report containing information on the investment performance of the Fund in total and for each manager.

Each active investment manager will be required to submit a quarterly report within six weeks after the end of each calendar quarter containing the following information:

- Overview of financial markets with comments on economic and market factors, which have impacted the performance of the portfolio manager's decisions.
- Review of investment performance (net of fees) for the quarter, fiscal year-to-date (June 30) and since-inception of the account with comments on any policy or strategy changes, which contributed either positively or negatively to that performance.
- Discussion of those factors which the manager believes are likely to impact performance over the next 12 months, and what the manager's strategy is likely to be in response to those factors.
- Where appropriate, the use of any derivative product during the quarter, including information concerning the rationale behind the position and the size of the transaction.
- Comments on any material change in personnel, investment strategy or other pertinent information potentially affecting performance.
- List of the securities in the portfolio at the end of the quarter.

At the end of each calendar year, the investment manager will prepare a report regarding their proxy voting activities for that year, and include the information in the December quarterly report.

INVESTMENT MANAGER GUIDELINES
U.S. EQUITY GENERAL PARTNERSHIP II
OF THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL AND ROTARY INTERNATIONAL
Adopted June 2001; Amended April 2005, April 2007 and November 2007

The following guidelines have been developed to be used in the management of the U.S. Equity General Partnership II (Partnership) assets. Where mutual or commingled funds are used, it is expected that the portfolios generally conform to these guidelines, though the prospectus or guidelines of the fund supersede those of the Partnership. On a quarterly basis, the investment managers of mutual or commingled funds will review the guidelines of the commingled funds and the guidelines set forth below. If the fund's portfolio differs from the below reference standards in any material respect, the investment manager will notify the Partnership in its next quarterly report.

Manager Responsibilities

The duties and responsibilities of the investment managers include:

- Investing the assets entrusted to them in accordance with these investment guidelines and with the care, skill, prudence, and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets.
- Voting all proxies after careful assessment of the issues involved. The managers should pay particular attention to items that may reduce the economic value of stockholders' rights of ownership and thereby impact adversely the performance of the Partnership's assets.
- Initiating written communication with the Partnership whenever the investment manager believes the guidelines should be changed.

Guidelines

- It is expected that the portfolio will normally be fully invested in stocks that trade on U.S. exchanges, but managers may also use cash equivalent securities at their discretion. At no time should cash equivalent securities exceed 10% of the portfolio's market value.
- When investing in cash equivalents, managers generally are expected to utilize a high quality, broadly diversified commingled fund or other high quality vehicle developed internally or made available by the custodian bank.
- The portfolio is to be diversified in a manner to reduce the impact of large losses in individual securities.
- Futures and options positions will be permitted in the management of the Partnership's assets, but should be limited to covered hedges or equitization of cash balances only. Leveraging portfolio positions through borrowing, short sales, or other encumbrances of the Partnership's assets is prohibited.

Performance Measurement Standards

Total Partnership

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Wilshire 5000 Stock Index
- rank in the upper 50 percent of the consultant's broad equity manager universe

INTECH (Broad Large Cap Growth Equity)

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 1000 Growth Index
- rank in the upper 50 percent of the consultant's large cap growth equity manager universe

Friess Associates (Large Cap Growth Equity)

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 1000 Growth Index
- rank in the upper 50 percent of the consultant's large cap growth equity manager universe

Institutional Capital (Large Cap Value Equity)

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 1000 Value Index
- rank in the upper 50 percent of the consultant's large cap value equity manager universe

M.A. Weatherbie & Co. (Small Cap Growth Equity)

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 2000 Growth Index
- rank in the upper 50 percent of the consultant's small cap growth equity manager universe

NWQ (Small/Mid Cap Value Equity)

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of return of the Russell 2500 Value Index
- rank in the upper 50 percent of the consultant's small/mid cap value equity manager universe

Barclays Global Investors (Index Fund- Small Cap Value Equity)

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- match the rate of return of the Russell 2000 Value Stock Index

Barclays Global Investors (Index Fund-Broad U.S. Market)

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- match the rate of return of the Wilshire 5000 Stock Index

Western Asset Management Company (Enhanced Index Fund)

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- exceed the rate of the S&P 500 Index

Reporting Requirements

Within four weeks after the end of each calendar quarter, each active investment manager will be required to submit a quarterly report containing the following information:

- Overview of financial markets with comments on economic and market factors, which have impacted the performance of the portfolio manager's decisions.
- Review of investment performance (net of fees) for the quarter, fiscal year-to-date (June 30) and since-inception of the account with comments on any policy or strategy changes, which contributed either positively or negatively to that performance.
- Discussion of those factors, which the manager believes are likely to impact performance over the next 12 months, and what, the manager's strategy is likely to be in response to those factors.
- Where appropriate, the use of any derivative product during the quarter, including information concerning the rationale behind the position and the size of the transaction.
- List of the securities in the portfolio at the end of the quarter.

The passive manager will be required to submit a report with four weeks after each calendar quarter reviewing investment performance (net of fees) for the quarter, fiscal year-to-date (June 30) and since-inception of the account.

Additionally, each manager has the responsibility to promptly advise the Partnership of any pertinent information potentially affecting performance including:

- change in ownership, affiliations, organization structure, financial condition, and key investment personnel
- substantive changes in investment strategy or portfolio structure

On an annual basis, the investment manager shall provide Part II of Form ADV for the most recent year to the Partnership.

INVESTMENT MANAGER GUIDELINES
INTERNATIONAL EQUITY GENERAL PARTNERSHIP II
OF THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL AND ROTARY INTERNATIONAL
Adopted June 2001
Amended October 2005 and June 2008

The following guidelines have been developed to be used in the management of the International Equity General Partnership II (Partnership) assets. Where mutual or commingled funds are used, the prospectus or guidelines of the fund supersede those of the Partnership.

Manager Responsibilities

The duties and responsibilities of the investment managers include:

- Investing the assets entrusted to them in accordance with these investment guidelines and with the care, skill, prudence, and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets.
- Voting all proxies after careful assessment of the issues involved. The managers should pay particular attention to items that may reduce the economic value of stockholders' rights of ownership and thereby impact adversely the performance of the Partnership's assets.
- Initiating written communication with the Partnership whenever the investment manager believes the guidelines should be changed.

Guidelines

- It is expected that the portfolio will normally be fully invested in international stocks, but managers may also use cash and/or cash equivalent securities at their discretion. At no time should the combination of cash and cash equivalent securities exceed 10% of the portfolio's market value.
- When investing in cash equivalents, managers generally are expected to utilize a high quality, broadly diversified commingled fund or other high quality vehicle made available by the custodian bank. Managers also may use alternative funds or vehicles that meet the standards of quality and diversification that would be achieved by using the custodian bank's vehicles.
- The portfolio is to be diversified in a manner to reduce the impact of large losses in individual securities.
- Currency hedging decisions are at the discretion of the investment manager.
- Futures and options positions will be permitted in the management of the Partnership's assets, but should be limited to covered hedges or as an alternative to direct investment in the securities markets. Leveraging portfolio positions through borrowing, short sales, or other encumbrances of the Partnership's assets is prohibited.

- Managers may make use of their pooled funds to gain access to the various sectors of non-U.S. equity markets.
- The portfolio may invest in “partly paid” and “when issued” securities.
- The portfolio may invest in private placements.
- Managers may not invest in exchange traded or non-exchange traded real estate investment trusts.

Performance Measurement Standards

Over a three-to-five year period, the annualized return on a net-of-fee basis should:

- Exceed the rate of return of the MSCI ACWI ex-U.S. Index
- Rank in the upper half of the consultant’s non-U.S. equity manager universe

Reporting Requirements

Within four weeks after the end of each calendar quarter, each active investment manager will be required to submit a quarterly report containing the following information:

- Overview of financial markets with comments on economic and market factors, which have impacted the performance of the portfolio manager’s decisions.
- Review of investment performance (net of fees) for the quarter, fiscal year-to-date (June 30) and since-inception of the account with comments on any policy or strategy changes, which contributed either positively or negatively to that performance.
- Discussion of those factors, which the manager believes are likely to impact performance over the next 12 months, and what, the manager’s strategy is likely to be in response to those factors.
- Where appropriate, the use of any derivative product during the quarter, including information concerning the rationale behind the position and the size of the transaction.
- List of the securities in the portfolio at the end of the quarter.

Additionally, each manager has the responsibility to promptly advise the Partnership of any pertinent information potentially affecting performance including:

- Change in ownership, affiliations, organization structure, financial condition, and investment personnel
- Substantive changes in investment strategy or portfolio structure

On an annual basis, the investment manager shall provide Part II of Form ADV for the most recent year to the Partnership.

INVESTMENT MANAGER GUIDELINES
FIXED INCOME GENERAL PARTNERSHIP II
OF THE ROTARY FOUNDATION OF ROTARY INTERNATIONAL AND ROTARY INTERNATIONAL
Adopted June 2001

The following guidelines have been developed to be used in the management of the Fixed Income General Partnership II (Partnership) assets. Where mutual or commingled funds are used, it is expected that the portfolios generally conform to these guidelines, though the prospectus or guidelines of the fund supersede those of the Partnership. On a quarterly basis, the investment managers of mutual or commingled funds will review the guidelines of the commingled funds and the guidelines set forth below. If the fund's portfolio differs from the below reference standards in any material respect, the investment manager will notify the Partnership in its next quarterly report.

Manager Responsibilities

The duties and responsibilities of the investment managers include:

- Investing the assets entrusted to them in accordance with these investment guidelines and with the care, skill, prudence, and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets.
- Initiating written communication with the Partnership whenever the investment manager believes the guidelines should be changed.

Guidelines

Diversification

- The portfolio is to be diversified in a manner to reduce the impact of large losses in individual securities.
- Single issuers are limited to 5% of the portfolio's market value with the exception of U.S. government and agency securities and the government and agency issues of the following countries: Japan, Germany, U.K., France, Canada, Switzerland, Australia, and the Netherlands.
- Managers may make use of their pooled funds to gain access to the various sectors of the bond market.
- Managers may not invest in non-exchange traded real estate investment trusts.

Maturity and Duration

The managers are responsible for determining the maturities of individual fixed-income securities within the portfolio. The overall portfolio duration will not deviate from the

duration of the Barclays Capital Aggregate Bond Index by more than +/- 1.5 years.

Quality

Note: Split-rated notes will be governed by the highest rating.

- The average credit quality of the portfolio shall be at least A/A2.
- No more than 15% of the portfolio (as measured by market value) shall be invested in securities rated below BBB-/Baa3. No issues below B-/B3 are allowed except as provided below.
- No more than 5% of the portfolio (as measured by market value) may be invested in securities not rated by any of the four major rating agencies (Moody's, Duff & Phelps, Standard & Poor's, and Fitch). Unrated securities of the U.S. Treasury and Government agencies are permissible investments. The manager is responsible for determining an appropriate credit rating for unrated securities for purposes of guideline compliance.
- If a bond held in the portfolio is downgraded to a quality not permitted herein, the investment manager may continue to hold the bond(s) at his discretion, provided that (1) the market value of the bond(s) do(es) not exceed 3% of the portfolio, (2) the manager has complied with all other quality requirements, and (3) the manager submits a letter stating his reason(s) for holding the bond(s). If the bond's value does exceed 3% of the portfolio, the manager must liquidate sufficient holdings to reduce the position to less than 3% within 30 days.

Non-U.S. Dollar Securities

No more than 20% of the portfolio (as measured by market value in U.S. dollars) shall be invested in non-U.S. dollar denominated bonds. Included in this limitation is a maximum allocation of 5% to emerging market fixed-income securities as defined as markets outside the Salomon Brothers World Government Bond Index.

Derivatives and Other Securities

- Futures, options, forwards and swaps may be used only if 1) the manager deems the vehicle more attractive than a direct investment in the underlying cash market; 2) to manage or hedge portfolio risk; and/or 3) to take advantage of expected changes in volatility and/or the shape of the yield curve.
- Futures, options, forwards and swaps may not be used to increase the portfolio's risk profile greater than the manager could otherwise do by investing in the underlying physical securities. Under no circumstance may these instruments be used to leverage the portfolio.

- The managers may make use of currency futures and forward contracts to hedge the existing currency risk in the portfolio.
- The managers may invest up to 30% of the portfolio in privately placed securities, with a maximum of 15% in non-Rule 144(a) securities.

Performance Measurement Standards

Over a three-to-five-year period, the annualized return on a net-of-fee basis should:

- Exceed the rate of return of the Barclays Capital Aggregate Bond Index
- Rank in the upper third of the consultant's core fixed income manager universe

Reporting Requirements

Within four weeks after the end of each calendar quarter, each investment manager will be required to submit a quarterly report containing the following information:

- Overview of financial markets with comments on economic and market factors, which have impacted the performance of the portfolio manager's decisions.
- Review of investment performance (net of fees) for the quarter, fiscal year-to-date (June 30) and since-inception of the account with comments on any policy or strategy changes, which contributed either positively or negatively to that performance.
- Discussion of those factors, which the manager believes are likely to impact performance over the next 12 months, and what, the manager's strategy is likely to be in response to those factors.
- Where appropriate, the use of any derivative product during the quarter, including information concerning the rationale behind the position and the size of the transaction.
- List of the securities in the portfolio at the end of the quarter.

Additionally, each manager has the responsibility to promptly advise the Partnership of any pertinent information potentially affecting performance including:

- Change in ownership, affiliations, organization structure, financial condition, and investment personnel
- Substantive changes in investment strategy or portfolio structure

On an annual basis, the investment manager shall provide Part II of Form ADV for the most recent year to the Partnership.

INVESTMENT GUIDELINES
BANK OF AMERICA
ROTARY INTERNATIONAL GENERAL FUND
Adopted June 1999; Revised August 2001; Revised January 2007

These investment guidelines extend the Statements of Investment Policy for the Rotary International General Fund (the Fund).

Distinction of Responsibilities

The investment manager will invest the assets entrusted to it in accordance with the Fund's investment policies and its judgments concerning relative investment values. In particular, the investment manager is given full discretion to (1) select individual securities, (2) invest in its own funds, and (3) diversify the portfolio's assets.

Maturities

1. As the assets in this account represent the temporary investment of operating funds of Rotary International, a substantial portion of the portfolio will consist of overnight and other very short-term investments.
2. A maximum of 25% of the portfolio may be invested in securities or instruments which have a maturity date exceeding 181 days from the date of purchases.
3. A minimum of 5% of the portfolio should be available each business day. This may be satisfied by maturities or demand features.
4. The dollar-weighted average maturity of the portfolio will be limited to 90 days.
5. Floating rate instruments and variable rate instruments must have interest rate resets or potential reset frequencies of 90 days or less, and an expected final maturity or weighted average life not exceeding 18 months from the date of purchase.
6. The maturity of a security or instrument shall mean the date when final payment is due. Instruments, which have a variable/floating rate of interest, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate or the period until the principal amount can be recovered through demand.

Diversification Requirements.

1. Safety of principal, liquidity and marketability should be prime considerations in the selection of individual securities.

2. With the exception of U.S. Government and Agency issues and diversified money market funds, total holdings of any one issue may not exceed 10% of the market value of the portfolio.
3. With the exception of U.S. Government and Agency issues, total holdings of any one industry may not exceed 25% of the market value of the portfolio.
4. All diversification requirements apply at the time of purchase.

Investment Criteria

1. Securities of U.S. Government or agencies thereof.
2. With respect to commercial paper and other short-term obligations, investments and reinvestments shall be limited to obligations rated (or issued by an issuer that has been rated) at the time of purchase in a “Tier One” ratings category by the nationally recognized statistical rating organizations (“NRSROs”) followed by Bank of America’s Credit Committee that have assigned a rating to such security (or issuer).
3. With respect to bonds and other long-term obligations, investment and reinvestment shall be limited to obligations rated at the time of purchase in one of the three highest ratings by the NRSROs followed by Bank of America’s Credit Committee that have assigned a rating to such security.
4. Money market funds adhering to the quality guideline described above.
5. Repurchase agreements 100% collateralized with direct U.S. government securities.

Performance Measurement Standards

To exceed the rate of return of the Donoghue Money Market Index over a three- to five-year period, on a net-of-fee basis.

Policy for Investment Consultant Evaluation

A formal written evaluation of Rotary's investment consultant will be conducted every five years, unless circumstances dictate the need for a more frequent evaluation. Such circumstances include (but are not limited to) arising conflicts of interest, consultant staffing instability or failure to meet Rotary's changing needs. The consultant will be evaluated based on the:

1. Value added through the consultant's recommendations on:
 - *Asset allocation.* Specifically, to what extent did the consultant's recommendations on asset allocation strategies maximize investment return while minimizing risk. This criterion will be evaluated by comparing the benchmark returns and standard deviations of those returns of each fund (Annual Programs Fund, Permanent Fund, PolioPlus Fund, Rotary Foundation (Canada), General Fund, Retirement Fund) at the inception of the relationship to the benchmark returns and standard deviations of those returns of each fund as recommended by the consultant.
 - *Investment managers.* Specifically, to what extent did each fund outperform their stated benchmarks over a full market cycle.
 - *Investment policy and manager guidelines.* Specifically, to what extent did the policies and guidelines recommended by the consultant stipulate appropriate levels of authority, controls, and reporting, such that the Trustee and Directors were able to fulfill their fiduciary duties with respect to the funds.
 - *Investment manager terminations.* Specifically, to what extent did the investment consultant evaluate current investment managers in a timely manner and recommend termination as needed.
2. Quality and accuracy of quarterly investment reports, including performance measurement.
3. Ability to provide specialized studies and reports on specific investment matters.
4. Stability, depth and competency of the firm as well as the individuals staff interacts with on a daily basis.
5. Ability to work and communicate with staff and various committees, as well as responsiveness of the investment consultant.
6. Minimal, if any, conflicts of interest.
7. Experience in working with organizations similar to Rotary.
8. Peer ratings as published in industry periodicals, or otherwise provided by research organizations.
9. Fee structure.
10. Initiative in bringing forward new ideas and keeping Rotary informed of trends in endowment and foundation investment management.

Concurrent with the written evaluation will be a solicitation and evaluation of proposals from other investment consulting firms. The firm retained as Rotary's investment consultant will be granted a five-year contract.

Explanation of Hewitt Investment Group (HIG) Capital Market Assumptions – 2008 Q4

The following capital market assumptions were developed by Hewitt Investment Group (HIG) and represent the long-term capital market outlook as of the fourth quarter of 2008. The assumptions were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Our long-term assumptions for other asset classes are based on historical results, current market characteristics, and our professional judgment.

Inflation – Expected Level (2.25%)

Based on Consensus Economics, we expect U.S. consumer price inflation to be approximately 2.25% during the next 10 years.

Real Returns for Asset Classes

Fixed Income

- **Cash (1.50%)** – Over the long run, we expect the real yield on cash and money market instruments to produce a real return of 1.5% in a moderate- to low-inflationary environment such as today.
- **Core Fixed Income (i.e., Market Duration) (3.25%)** – We expect intermediate duration Treasuries to produce a real return of about 1.75%. Credit spreads increased meaningfully during the third quarter, reaching roughly 1.75% for the overall U.S. investment grade bond market. We estimate losses and downgrades to detract about 0.25% per annum, resulting in a long-term real return of 3.25%.
- **Long Duration Bonds – Government and Credit (3.30%)** – We expect long duration Treasuries to produce a real return of 2.25%. Credit spreads were about 1.70% for long duration, investment grade corporate and government bonds at the end of the quarter. We estimate losses and downgrades to detract about 0.65% per annum, resulting in an expected real return of 3.30%.
- **High Yield Bonds (5.00%)** – We expect intermediate duration Treasuries to produce a real return of about 1.75%. Quarter end credit spreads for high yield bonds averaged about 1,000 basis points. We estimate about 675 basis points in annual losses due to downgrades and defaults. This leads us to a real return expectation of about 5.00% for high yield bonds.

Equities

- **Large Cap U.S. Stocks (6.00%)** – The current market dividend yield is around 2.5%; we expect dividend yields to remain at 2.5% going forward. We believe that a real corporate earnings growth of about 3.5% is achievable at a low dividend yield of about 2.5%. This is slightly below the long-term average (1927 to 2006) of the sum of these two components, i.e., real corporate earnings growth plus dividend yield, generally has been greater than 6.0%, historically.

- **Small Cap U.S. Stocks (6.50%)** – Adding a 0.5% return premium for small cap U.S. stocks over large cap U.S. stocks results in an expected real return of 6.5%. This return premium is theoretically justified by the higher risk inherent in small cap U.S. stocks versus large cap U.S. stocks, and is also justified by historical data. This 0.5% premium has been reduced from 1.0% to reflect the fact that the increase in the relative valuation of small caps stocks versus large cap stocks in recent years indicates that the risk premium demanded by investors may be shrinking.
- **International (Non-U.S.) Stocks, Developed Markets (6.00%)** – HIG assumes the same return for Non-U.S. stocks in developed markets as for U.S. large cap stocks. Most institutional international equity portfolios are predominantly invested in very large globally-oriented companies. We believe that it is reasonable to have the same return expectations for these companies as for U.S.-based companies. We expect a neutral return from currency translation over time, and we also expect that currency translation will increase the volatility of non-U.S. stocks (versus large cap U.S. stocks) and increase the diversification benefit of non-U.S. stocks.
- **Emerging Market Stocks (8.00%)** - Our expectation for emerging market stocks is based on the philosophical risk/return relationship rather than empirical evidence. Conceptually, higher risk assets must be priced at a level whereby investors are compensated for the higher risk – inherent in the investment – by a higher return expectation. We believe that a 2.0% risk premium over developed non-U.S. stocks is justifiable.

Alternative Asset Classes

- **Hedge Funds (4.50%)** – The generic category “hedge funds” encompasses a wide range of strategies. Our assumption is based on diversified fund-of-funds portfolios with exposure to both fixed income and equity oriented funds. Historically, hedge funds have produced returns greater than fixed income and less than equity. Our assumption is somewhat more conservative than historical results to account for flaws inherent in hedge funds indices, including survivorship bias, and self-reporting bias.
- **Real Estate (4.00%)** – Our real return assumption for core real estate is based on an income of about 5.00%, management fees of 1.00%, and future capital appreciation in line with inflation. We assume a portfolio of equity real estate holdings that is diversified by property type and by geographic region, employs a low level of leverage, and is composed of a majority of properties that are fully leased.
- **Private Equity (8.00%)** – Because there is not reliable empirical evidence for private equity returns, our assumption is based on our conceptual knowledge of the asset class. Private equity should behave similarly to small cap stocks, with a risk premium added to account for the lack of liquidity inherent in private equity, as well as the greatly increased dispersion risk related to private equity returns (i.e., the risk associated with selecting a specific private equity investment). HIG believes that an additional 1.5% expected return premium over small cap stocks is reasonable.

Volatility Assumptions

HIG’s volatility assumptions are generally in-line with actual historical data. In the specific cases of real estate and private equity, we have subjectively increased our volatility assumptions to reflect the fact that the appraisal pricing method used for these asset classes artificially reduces the true volatility of returns for these investments.

Correlation Assumptions

HIG’s correlation assumptions are generally in line with actual historical data. In the specific cases of real estate and private equity, we have subjectively increased the correlation assumptions for these investments reflecting the fact that the appraisal pricing method used for these investments artificially lowers the correlations for these asset classes with other asset classes.

Hewitt Long-Term Capital Market Assumptions – 2008 Q4

		Expected Real Return	Expected Volatility
Equity			
1	Large Cap U.S. Equity	6.00%	18.00%
2	Small Cap U.S. Equity	6.50%	24.00%
3	International Equity	6.00%	20.00%
4	Emerging Markets Equity	8.00%	30.00%
Fixed Income			
5	Cash	1.50%	1.50%
6	Core Fixed Income (Market Duration)	3.25%	5.00%
7	Long Duration Bonds – Gov't / Credit	3.30%	9.00%
8	High Yield Bonds	5.00%	13.00%
Alternative Investments			
9	Hedge Funds	4.50%	13.00%
10	Real Estate	4.00%	12.00%
11	Private Equity	8.00%	30.00%
12	Inflation	2.25%	1.50%

		Correlations											
		1	2	3	4	5	6	7	8	9	10	11	12
		Large Cap U.S. Equity	Small Cap U.S. Equity	International Equity	Emerging Markets Equity	Cash	Core Fixed Income (Market Duration)	Long Duration Bonds – G/C	High Yield Bonds	Hedge Funds	Real Estate	Private Equity	Inflation
1	Large Cap U.S. Equity	1.00	0.86	0.80	0.61	0.38	0.18	0.08	0.64	0.52	0.14	0.66	-0.38
2	Small Cap U.S. Equity		1.00	0.71	0.72	0.21	0.06	0.00	0.65	0.58	0.04	0.60	-0.28
3	International Equity			1.00	0.61	0.23	0.18	0.05	0.47	0.45	0.23	0.56	-0.38
4	Emerging Markets Equity				1.00	0.08	-0.08	-0.17	0.53	0.62	-0.02	0.47	-0.22
5	Cash					1.00	0.51	0.41	0.25	0.15	0.30	0.24	-0.81
6	Core Fixed Income (Market Duration)						1.00	0.95	0.26	-0.04	-0.02	-0.13	-0.48
7	Long Duration Bonds – G/C							1.00	0.25	-0.04	0.02	-0.07	-0.43
8	High Yield Bonds								1.00	0.32	-0.05	0.29	-0.36
9	Hedge Funds									1.00	-0.10	0.64	-0.12
10	Real Estate										1.00	0.19	-0.39
11	Private Equity											1.00	-0.17
12	Inflation												1.00

Rotary International Long-Term Expected Return on Investments (Net)
Based on Hewitt's 2008 Long-Term Asset Modeling Assumptions Report

	Real	Nominal	RI Asset Weighting	RI Expected Return
U.S. Large Cap	6.0%	8.3%	28.0%	0.0231
U.S. Small Cap	6.5%	8.8%	7.0%	0.006125
Non-US Equity	6.0%	8.3%	20.0%	0.0165
Emerging Market Equity	8.0%	10.3%	5.0%	0.005125
Fixed Income	3.3%	5.5%	40.0%	0.022
Inflation	2.3%		100.0%	7.29%

* The new target allocation is in the process of being implemented.

ROTARY INTERNATIONAL
Investment Managers – As of 1 January 2009

Manager	Month/Year Hired	Asset Class	Investment Style	Fees
Barclays Global Investors (BGI) W5000 Fund	May-96	U.S. Equity	Broad Market Index Fund	0.05%
Western Asset Management Co. (WAMCO)	July-05	U.S. Equity	Enhanced Index Fund	0.25%
Institutional Capital (ICAP)	Dec-00	U.S. Equity	Large Cap Value	0.48%
Friess Associates	Dec-07	U.S. Equity	Large Cap Growth	1.00%
INTECH	Dec-07	U.S. Equity	Large Cap Growth	0.55%
Barclays Global Investors (BGI) R2000 Value	Jun-07	U.S. Equity	Small Cap Value Index	0.10%
Nuveen Investments (NWQ)	Jun-07	U.S. Equity	Small/Mid Cap Value	0.83%
M.A. Weatherbie	Dec-02	U.S. Equity	Small Cap Growth	1.00%
Artio Global Investors	Dec-08	Non-U.S. Equity	Core	0.75%
Grantham, Mayo, Van Otterloo & Co. (GMO)	Oct-04	Non-U.S. Equity	Core/Value	0.75%
Pacific Investment Management Co. (PIMCO)	Dec-98	Fixed Income	Core	0.43%
Reams Asset Management	Dec-99	Fixed Income	Core	0.24%
Bank of America (Working Capital)	Oct-06	Cash & Cash Equivalent	N/A	N/A

**ROTARY INTERNATIONAL
INVESTMENT MANAGERS – HISTORICAL INFORMATION**

Manager	Hire Date	Termination Date	Length of Term	Reason for Termination
ARM Capital Advisors	31 May 1996	31 Oct 1999	3 yrs, 5 mos	Non-disclosure of pertinent information; lack of trust
Barclays Global Investors (BGI) W5000	31 May 1996			
Barclays Global Investors (BGI) Fixed Income	31 May 1996	30 Nov 1998		Move to active investing
Harris Associates	31 May 1996	31 May 1999		Performance
Templeton Investment Counsel	31 Dec 1996	31 Dec 2000	4 years	Performance; value style bias
Montag and Caldwell	31 Oct 1997	31 Dec 2000	3 yrs, 2 mos	Performance; not aggressive enough
Putnam Investments	30 Nov 1998	1 Nov 2003	4 yrs, 11 mos	Investment manager improprieties
Pacific Investment Management Company (PIMCO)	31 Dec 1998			
LSV Asset Management	31 May 1999	31 Dec 2000	1 year, 7 mos	Trustee disagreed with investment philosophy (quantitative approach)
The Northern Trust (Working Capital)	30 Jun 1999	30 Sept 2006	7 yrs, 3 mos	Could not service entire North America
Reams Asset Management	31 Dec 1999			
Trust Company of the West (TCW)	31 Dec 2000	30 Nov 2007	6 yrs, 11 mos	Performance
Institutional Capital (ICAP)	31 Dec 2000			
Essex Investment Management	31 Dec 2000	30 Jun 2002	1 year, 6 mos	Performance; changes within the firm
High Rock Capital	31 Dec 2000	30 Jun 2004	3 yrs, 6 mos	Performance
Capital Guardian	31 Dec 2000	31 Dec 2008	8 years	Change in non-U.S. equity mandate
M. A. Weatherbie & Co.	31 Dec 2002			
J.L. Kaplan	30 Jun 2004	31 May 2007	2 year, 11 mos	Organizational changes
Grantham, Mayo, Otterloo (GMO) Foreign Fund	31 Oct 2004	31 Dec 2008	4 years, 2 mos	Change in non-U.S. equity mandate
Western Asset Management Company (WAMCO)	30 Jun 2005			
Bank of America (Working Capital)	1 Oct 2006			
Nuveen Investments (NWQ)	11 Jun 2007			
Barclays Global Investors (BGI) R2000 Value	11 Jun 2007			
INTECH	3 Dec 2007			
Friess Associates	3 Dec 2007			
Grantham, Mayo, Otterloo (GMO) All Country Allocation Fund	31 Dec 2008			
Artio Global Investors	31 Dec 2008			

ROTARY INTERNATIONAL
Historical Investment Return Information
US\$(000)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Average
Interest and dividends	3,231	2,995	2,657	2,069	1,884	1,637	2,173	2,963	4,792	3,721	2,812
Net realized gains/(losses)	4,864	5,313	4,355	(112)	(3,882)	229	2,256	4,421	4,629	6	2,208
Increase/(decrease) in unrealized gains *	(1,489)	(3,532)	(7,220)	(5,627)	4,762	7,112	1,605	(42)	3,557	(7,844)	(872)
Investment fees/other	(442)	(450)	(496)	(606)	(563)	(674)	(591)	(589)	(649)	(640)	(570)
Total Net Investment Return	6,164	4,326	(704)	(4,276)	2,201	8,304	5,443	6,753	12,329	(4,757)	3,578

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Annualized
Rate of Return	9.4%	6.1%	-1.9%	-5.6%	3.7%	14.7%	7.5%	8.9%	14.3%	-5.4%	4.9%
<i>Benchmark Return</i>	<i>11.7%</i>	<i>8.4%</i>	<i>-5.6%</i>	<i>-5.2%</i>	<i>4.6%</i>	<i>14.1%</i>	<i>9.0%</i>	<i>7.9%</i>	<i>15.5%</i>	<i>-4.5%</i>	<i>5.3%</i>

* The increase/(decrease) in unrealized gains represents paper losses or gains.

Summary of Investment-Related Activities From Board and Administrative Decisions

Includes decisions taken during the ten-year period ended December 2008

INVESTMENT POLICY STATEMENT (IPS)

- **May 2000 (Decision 447)** - Agreed to annually review its investment policies.
- **June 2001 (Decision 430)** - Adopted the IPS for the General Fund.
- **November 2002 (Decision 183)** - Amended IPS to eliminate language regarding the operating reserve.
- **May 2003 (Decision 426)** - Amended the IPS to eliminate language regarding a spending policy, added a section on investment guidelines and modified the diversification language.
- **June 2004 (Decision 296)** - Reviewed the IPS and agreed that no changes were necessary.
- **June 2005 (Decision 334, point 3)** - Amended the IPS to include the allocation to an enhanced U.S. equity index fund.
- **June 2005 (Decision 335, point 2)** - Agreed that no changes were required to the IPS.
- **June 2006 (Decision 273)** - Agreed that no changes were required to the IPS, and requested the RI Finance Committee to review the policy for report to the Board at its November 2006 meeting.
- **November 2006 (Decision 117)** - Agreed there were no material changes to the needs and circumstances of the General Fund and agreed that no changes were required to the General Fund's IPS.
- **November 2007 (Decision 121)** - While no formal Board decision was taken about the IPS, it was noted in the minutes that The Finance Committee reviewed the validity of the General Fund's IPS. The Committee did not recommend any changes to the IPS to the Board.

Asset Allocations

- **November 2000 (Decision 189)** - Increase the target allocation to non-U.S. equities to 15% with a rebalancing range of 12% to 18%; decrease the target allocation to fixed income securities to 40% with a rebalancing range of 35% to 45%; and maintain the target allocation to U.S. equities at 45%.
- **June 2002 (Decision 300)** - Agreed to maintain the General Fund's current asset allocation of 60% equities and 40% fixed income.
- **November 2008 (Decision 113)** - The Board amended the IPS as follows:
 - reduced the target allocation to U.S. equities from 45% to 35%, with a rebalancing range of 30% to 40%
 - increased the target allocation to non-U.S. equities from 15% to 25%, with a rebalancing range of 20% to 30%.

Benchmarks

- **June 1999 (Decision 339)** - Approved the change in the policy benchmark for the non-US equity managers from the Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) Non-US Stock Index to the Morgan Stanley Capital International (MSCI) All Country World (ACW) excluding US Index.
- **November 2005 (Decision 36, point 9)** – Approved the change in the policy benchmark for the non-U.S. Equity Partnership benchmark from MSCI All Country World ex. U.S. to MSCI EAFE, and to amend the investment policy statements for the General Fund as well as the guidelines for the non-U.S. Equity Partnership to reflect this change.
- **June 2008 (Decision 224, point 8)** – The Board looks with favor on increasing the allocation to emerging markets by changing the benchmark for the non-U.S. equity partnership from MSCI EAFE to MSCI ACWI ex-U.S.

INVESTMENT GUIDELINES

- **June 2001 (Decision 430)** - Adopted investment guidelines for the U.S. Equity General Partnership, the International Equity General Partnership and the Fixed Income General Partnership of TRF and RI.
- **June 2005 (Decision 269, point 5)** - Concurred with the Foundation's investment of 50% of the funds that are currently in a U.S. stock index fund managed by BGI, into an enhanced U.S. equity index fund managed by Western Asset Management Company (WAMCO), and concurred with the Foundation's amendment to the Investment Guidelines for the U.S. Equity Partnership to reflect this change.

INVESTMENT STRUCTURE

- **August 2000 (Decision 91)** - Agreed to utilize TRF's pooled investment structure, noting that such action will reduce Rotary's investment-related fees by US\$15,000 per year, streamline the administration of investments, and allow for greater investment diversity.
- **November 2008 (Decision 29, point 14)**– Concurred with the Trustees decisions to:
 - consider consolidating the allocation to U.S. growth stocks with one all-cap growth stock manager
 - having the TRF Investment Advisory Committee make a final recommendation regarding implementing an all-cap U.S. growth stock manager at the Trustees' April 2009 meeting

INVESTMENT MANAGER DECISIONS

See page 23 for historical information (appointments and terminations) concerning Rotary's investment managers.

- **November 2000 (Decision 189)** - Requested the general secretary to establish a method acceptable to both RI and TRF for future appointments/changes to asset managers.

- **November 2001 (Decision 139)** - Approved procedures for terminating investment managers when circumstances warrant action prior to the next Board meeting, and requests the Trustees' concurrence with this decision.

INVESTMENT OVERSIGHT/COMMITTEES

- **May 2000 (Decision 447)** - Requested the President in 2000-01 to appoint a committee of Rotarians who have demonstrated expertise in the investment area and in the administration of trust funds. Requested this committee to examine current RI investment policies, seeking external advice as necessary and, if it deems appropriate, to recommend amendments to the current RI investment policies to the next meeting of the RI Finance Committee, for report to the Board at its November 2000 meeting.
- **May 2000 (Decision 447)** - Requested the President in 2000-01 to appoint a liaison Director to The Rotary Foundation committee considering investment policies, with the concurrence of the Trustees.
- **November 2000 (Decision 189)** - Agreed to a process for appointing future Investment Advisory Groups.
- **November 2001 (Decision 138)** - Requested the President to add to the current RI Investment Advisory Committee (IAC) the RI Treasurer, the chairman of the Board Finance Committee, and one other Director appointed by the President. Beginning 1 July 2002, agrees that the RI IAC shall consist of the RI Treasurer, the chairman of the Board Finance Committee, and one other Director appointed by the President.
- **February 2003 (Decision 307)** - Rescinded Decision 138, November 2001 regarding an Investment Advisory Committee, effective 1 July 2003.
- **June 2006 (Decision 218, point 1)** - The Board noted the formation of a TRF Investment Advisory Committee and the agreement by the Trustees to have representatives from the RI Finance Committee attend Investment Advisory Committee meetings when investment matters common to both entities are reviewed and discussed.

INVESTMENT CONSULTANTS

- **June 2000 (Decision 25)** - Agreed effective 1 July 2000, to terminate Ennis, Knupp and Associates and appoint Hewitt Associates as RI's investment consultant.
- **November 2005 (Decision 36, point 9)** - The Board concurred with the Trustees' decisions to adopt the Policy for Investment Consultant Evaluation.
- **November 2007 (Decision 29, point 15)** - Concurred with the Trustees' reappointment of Hewitt Investment Group to provide investment consulting services for a two-year period beginning 1 January 2008.

WATCH LIST

- **November 2006 (Decision 33, point 12)** - Concurred with the Trustees' decisions to
 - adopt the Investment Manager Watch List Procedures
 - place M.A. Weatherbie and J.L. Kaplan on the Watch List

- keep ICAP on the Watch List
- **June 2008 (Decision 224, point 7)** – Concurred with the Trustees’ decision to place Grantham, Mayo, Van Otterloo & Co., non-U.S. equity manager, on the Watch List due to organizational changes.
- **November 2008 (Decision 29, point 14)** – Concurred with the Trustees’ decisions to:
 - remove ICAP from the Watch List due to continued organizational stability;
 - automatically place and remove managers from the Watch List based on investment performance factors only.

OTHER

- **November 2007 (Decision 121)** - The Board adjusts the investment rate of return assumption used for the budget and five-year financial forecast from 5% to the expected long-term rate of return on the General Fund, as annually calculated by RI’s investment consultant, effective with the 2008-09 budget and five-year financial forecast.