

INVESTMENT GUIDELINES

GEORGIA BAPTIST FOUNDATION, INC.

February 2009

INVESTMENT OBJECTIVE

The investment objectives of the Georgia Baptist Foundation, Inc. are to provide sufficient cash flow from interest, dividends, and realized capital gains to meet the income payout level as specified from time to time by the trustees, and to generate enough additional growth of principal to maintain the purchasing power of the income dollar. The specific performance goal is a portfolio that has a high probability of providing a five-year average return that will allow a dividend rate of at least 5% and reinvestment of at least 3.5% to account for inflation.

INVESTMENT POLICY

A. Asset Allocation

The asset allocation within the portfolio is driven by the overall objective of the Foundation, as stated above. Specific equity and fixed income disciplines that are used in the asset mix, along with the percentage of the portfolio allocated to each, are listed in Appendix A. Such allocations are subject to change upon the recommendation of the President and approval of the Investment Committee.

It will be the responsibility of the President to monitor the balance and redistribute assets any time the total imbalance exceeds 3%.

B. Income Distribution

The Trustees have determined that the level of income to be paid to beneficiaries shall be as follows:

On January 1st of each year, the prior year's dividend will be increased by 3.5%, subject to the following: if the new dividend divided by the 12/31 share price is greater than 6%, the dividend will be adjusted downward to equal the 6% figure. Similarly, if the new dividend divided by the 12/31 share price is less than 4.5%, the dividend will be adjusted upward to equal the 4.5% figure.

The calculated income will be withdrawn from each manager based on that manager's percentage of total Foundation pooled assets as necessary for making required periodic income distributions.

C. Risk Tolerance

The primary measurement of risk will be the standard deviation of average returns. The desired ratio of return units to risk units shall be such that when average return over the life of the portfolio is divided by standard deviation, the result is greater than one (1).

Failure to achieve the goal in times of excessive market volatility is not a failure of the strategy, but should trigger a review of the asset allocation and managers to insure that all are performing to expectations.

Equity Investment Guidelines **GEORGIA BAPTIST FOUNDATION, INC.**

1. Cash equivalent holdings in excess of withdrawal needs (approximately 5%) should be avoided. However, managers may increase cash assets in the portfolio if, in their professional judgment, market conditions so warrant. The manager shall inform the Foundation of his decision.

2. Equity Holdings - Diversification and Quality Criteria
 - a. The market value of any one company holding shall not exceed 10% of the total market value of equities held in the portfolio of a specific manager.
 - b. Diversification by industry is expected.
 - c. Securities which are broadly classified as institutional quality issues - regardless of whether or not they are listed on a recognized stock exchange - are eligible for inclusion in the portfolio.
 - d. Convertible issues are suitable for use as investment vehicles if the quality rating conforms to the intent of these guidelines.

3. Equity Holdings - Turnover

If performance results meet objectives, the rate of turnover will not be a factor in manager evaluation.

4. Equity Holdings - Universe

The following security categories are permissible equity investments:

 - a. Common stocks.
 - b. Securities convertible into common stock.
 - c. Common stocks of foreign companies, if listed on a major U.S. securities exchange.
 - d. ADRs

5. The following are not permitted unless approved in writing by the Foundation:
 - a. Short sales.
 - b. Put and Call Options.
 - c. Margin purchases, or borrowing or lending money.
 - d. Letter stock, private placement, or direct placements.

- e. Commodities or futures of any type.
 - f. Real estate or mortgages, except to the extent directed by the Trustee.
 - g. Common stock of foreign companies, except as permitted in Para. 4.c (applies only to domestic equity managers).
 - h. Securities of the asset manager, the custodian, their parent, or subsidiaries (excluding short term reserve funds).
 - i. Securities of companies whose primary business is related to alcohol, tobacco, gambling, or publishing materials of limited redeeming social value.
 - j. Securities of entertainment companies whose primary business is the production, sale, or distribution of pornographic movies, music, or television programs.
6. Investment transactions are to be executed at the best net price. The Foundation may, in its discretion, instruct the manager to direct trades to a specific broker-dealer.
7. Performance measurement will include the following:
- a. Each equity manager will be ranked against a universe of managers using the same investment style.
 - b. Each equity manager will be measured against an appropriate index as well.
 - 1. Large-cap growth managers will be measured against the Russell 3000 Growth Index.
 - 2. Large-cap value managers will be measured against the Russell 3000 Value Index.
 - 3. Small-cap growth managers will be measured against the Russell 2000 small stocks.
 - 4. International Equity managers will be measured against the MSCI EAFE index.
 - 5. Broad Equity or Core Managers will be measured against the S&P 500.

Fixed Income Investment Guidelines

GEORGIA BAPTIST FOUNDATION, INC.

1. Fixed Income Holdings - Bond Diversification and Quality Criteria
 - a. Marketable issues are desired so that the portfolio can be actively managed.
 - b. Bonds with maturities of one year or more should be of an original issue size in excess of \$50 million.
 - c. Bond holdings are expected to be well diversified across the permitted universe.
 - d. Quality: 90% of the portfolio will be Bank Investment Grade; the remaining 10% must have a Moody's or Standard & Poor's rating no lower than B2 or B.

2. Fixed Income Holdings - Turnover
 - a. Bonds may be actively managed.
 - b. Active management is meant to include altering the average coupon yields, shifting maturity schedules, "swapping", and such other prudent strategies which enhance the income or quality of the portfolio or decrease the risk.

3. Fixed Income Holdings - Bond Investment Universe

The following security categories are generally permissible investments for the fixed income portion of the portfolio:

 - a. Debt securities issued or guaranteed by the United States Government or its agencies (including U.S. Government Agency mortgage-backed securities).
 - b. Corporate bonds, debentures, and other forms of corporate debt obligations, including equipment trust certificates.
 - c. Indexed notes.
 - d. Yankee Bonds.
 - e. Debt securities issued by foreign governments provided they meet the quality criteria of Para. 1.d.

4. Cash Equivalent Holdings - Diversification

Excluding debt obligations of the U.S. Government or its agencies, or the master custodian short-term reserve fund, no single issue may exceed 10% of the market value of the total account.

5. Cash Equivalent Holdings - Universe
The following short term investment vehicles are acceptable:
 - a. All obligations issued or guaranteed by the U.S. Government or its agencies.
 - b. Commercial paper rated A1 by Standard & Poor's and P1 by Moody's.
 - c. Certificates of Deposit - only of banks or savings and loan institutions with listed deposits in excess of \$500 mm (excluding the custodian bank) in the United States in terms of total assets.
 - d. Custodian bank short term reserve funds which meet the diversification and quality criteria set forth by the Controller of the Currency.
 - e. No-load money market mutual funds.
 - f. Euro-dollar CD's.
 - g. Bankers Acceptances.

6. The following are not permitted unless approved in writing by the Foundation:
 - a. Securities of the asset manager, the custodian, their parent, or subsidiaries (excluding short term reserve funds).
 - b. Securities of companies whose primary business is related to alcohol, tobacco, gambling, or publishing materials of limited redeeming social value.
 - c. Securities of entertainment companies whose primary business is the production, sale, or distribution of pornographic movies, music, or television programs.

7. Investment transactions are to be executed at the best net price. The Foundation may, in its discretion, instruct the manager to direct trades to a specific broker-dealer.

8. Fixed Income managers will be measured against a universe of managers using the same investment style, as well as the Lehman Brothers Government/Credit Bond Index.

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Appendix A

Asset Allocation

1. Fixed income -58%
2. Value equity – 20%
3. Growth equity - 11%
4. Small cap growth equity - 11%