

November 2, 2010

**YORK HARBOR READING ROOM FOUNDATION
INVESTMENT POLICY STATEMENT**

INTRODUCTION

The York Harbor Reading Room Foundation was incorporated in the State of Maine in July of 2009 and was approved by the Internal Revenue Service as a 501 c 3 public charity in March of 2010. Its purpose is to preserve the historic clubhouse of the York Harbor Reading Room.

A capital campaign was begun in the spring of 2010 in order to raise funds to create an endowment that would provide income to pay for the expenses related to preserving the historic clubhouse.

A contractual agreement was created between the York Harbor Reading Room, the York Harbor Reading Room Foundation, and the Museums of Old York in order to establish a structure of review and approval of proposed projects to preserve the historic clubhouse. It was approved in October of 2009.

Agreements were also created between the Reading Room and the Foundation to lay out the process by which projects would be proposed, approved, and paid for.

Throughout these various steps, the overall intention of the creation of the Foundation and its endowment has been, primarily, to be a prudent steward of the York Harbor Reading Room's physical assets and also the Foundation's portfolio of marketable securities. It is hoped that assets donated to the endowment will grow over time and will be used judiciously to help maintain and enhance the unique nature and character of the York Harbor Reading Room.

It is intended that the Board of Directors of the York Harbor Reading Room Foundation will oversee the endowment through an investment policy statement that will provide the necessary parameters, objectives, guidelines, expectations and other considerations for managing the endowment.

It is the expressed hope that with careful and deliberate oversight, as well as continued, long term support from the many and generous friends of the York Harbor Reading Room, the endowment will grow over time enabling future decision makers to continue in the prudent stewardship of the endowment's capital and the preservation of the Reading Room's clubhouse. With a robust endowment in place, the costs to preserve the historic York Harbor Reading Room building should be met for many, many years to come.

INTENTION OF INVESTMENT POLICY STATEMENT

This investment policy statement (IPS) will provide criteria to ensure the effective supervision, monitoring, and evaluation of the York Harbor Reading Room Foundation's Endowment Fund (the "Fund"). Specifically, the IPS is intended and designed to:

1. Articulate objectives, guidelines and expectations for the investment of the endowment assets;
2. Set forth an investment structure for managing the Fund which includes various asset classes, and asset allocations that in total are expected to produce a desired level of total return at an acceptable level of risk;
3. Establish formalized criteria to monitor, evaluate, and compare performance results on a regular basis;
4. Encourage effective communication between the Committee and any investment manager(s);
5. Comply with all fiduciary, prudence, and due diligence requirements, consistent with the nature of these funds, that experienced investment professionals would utilize.

INVESTMENT COMMITTEE

The Investment Committee ("the Committee"), as established by the York Harbor Reading Room Foundation Board of Directors, will set the overall investment policy, choose any investment manager(s), review investment reports, and evaluate investment performance.

At least annually, the Committee will review this Investment Policy Statement, and recommend to the Board of Directors whether it should remain as written or be modified.

INVESTMENT OBJECTIVES

1. The primary long-term objective is to preserve the real (i.e., inflation-adjusted) purchasing power of the endowment.
2. The secondary objective is to seek to meet or exceed the respective benchmarks for each appropriate asset class.

The investment objectives are based on five and ten-year time horizons; interim fluctuations should be viewed with appropriate perspective.

INVESTMENT POLICIES

1. Risk tolerance is moderate to high given the endowment's objectives and recognizing the principals of prudent fiduciary investment management. The Committee recognizes that some risk must be assumed to achieve all objectives.
2. The portfolio should be diversified both by asset class: equities, bonds, alternatives, and cash equivalents; and within asset class: economic sector, industry, and quality. The purpose of diversification is to ensure that no single security or class of security will have a disproportionate impact on the total portfolio.

3. The purpose of fixed income investments is to provide a source of current income and to reduce the volatility of the total market value of the portfolio.
4. The purpose of equity investments is to provide growth of principal as well as some dividend income. It is recognized that these investments may entail the assumption of greater market volatility and risk than fixed income securities.
5. The purpose of alternative investments are to enhance risk-adjusted returns as appropriate.

INVESTMENT GUIDELINES

Asset Allocation: The Committee, along with any investment manager(s), will determine the overall asset allocation target.

The Committee will be notified by the manager(s) before any strategic asset allocation change of 5% or more is implemented.

Equity Investments: The equity allocation will consist of a portfolio of high quality companies diversified by market capitalization and economic sector. Single stock positions are generally not to exceed 5%. To achieve an optimal risk/return profile, the equity portfolio should be further diversified across market segments.

Investments in mid, small and international stocks may be effected through high quality mutual funds, as appropriate, to achieve effective diversification. Private Equity and Hedge fund investments, if appropriate, will be accessed via a diversified fund-of-funds vehicle.

Fixed Income Investments: The fixed income allocation will consist of:

- (1) Well-diversified investment grade securities, with intermediate or long term duration.
- (2) Short duration securities that are designated for near-term distributions will be invested in money market funds, which in turn are primarily invested in Commercial Paper rated A1 or P1, and securities issues or guaranteed by the U.S. Government or its agencies.

Fixed income investments may be effected through high quality mutual funds if the manager determines that funds represent a more efficient means to achieve effective diversification.

Alternative Investments: Alternative investments (typically hedge funds) are viewed on a case by case basis to either be considered investments with equity attributes or fixed income attributes. In total, however, alternative investments should constitute no more than 15% of the portfolio's total assets.

Trading: The manager will execute all transactions on the most favorable terms and in the most effective manner possible.

Investment Restrictions: As no list of investment instruments or strategies can be all-inclusive, the investment manager should seek guidance from the Committee before employing new types of instruments or strategies.

PERFORMANCE MEASUREMENT

Total portfolio return will be measured against a blended return of the Consumer Price Index (“CPI”), plus the endowment’s allowable spending rate (currently up to 4.0 %), net of fees.

The investment committee has adopted this benchmark in recognition of the primary objective of the endowment-- to preserve real purchasing power over time. It is expected that long-term (five to ten years) the total investment return will at least meet, and preferably exceed, the blended benchmark return.

Overall equity performance will be measured against the S&P 500 Index. Individual equity segments (i.e., large cap, small cap) will be measured against their respective benchmarks.

Fixed income performance will be measured against the Lehman Brothers Aggregate.

While it is not expected that portfolio returns will exceed the benchmark returns each measurement period, it is expected that the returns will be favorable over five to ten year rolling periods.

SPENDING POLICY

The Fund has adopted a “total return” approach to endowment spending. The total return spending policy (income plus capital appreciation) is based on a three year rolling average of the fiscal year-end market value of the endowment, as recognized by the Fund’s audited financial statements.

In developing this policy, the Fund and its investment manager have carefully evaluated the long-term goals for monies contributed to the endowment. Consideration is given to the Fund’s financial condition, its liquidity requirements, the nature of the liabilities to be discharged, and its risk taking capacity. Finally, the range of historic and expected returns, both nominal and real have been considered.

Based upon these considerations, the Committee has recommended a spending rate of *up to* 4.0% of the rolling market value calculation. Noting the dynamic nature of the capital markets, and the competitive environment facing the Fund, this spending rate should be reviewed on an annual basis for appropriateness.

These disbursements from the endowment will occur at least semi-annually.

RESPONSIBILITIES and OVERSIGHT

Investment Manager:

1. Manage the investments in accordance with the IPS objectives and guidelines as set forth herein, or as amended in writing by the Committee. Manager will - unless the account is a mutual fund or an exchange traded fund - sign a copy of this IPS to acknowledge understanding and acceptance of it.
2. Exercise complete investment discretion within the IPS objectives and guidelines.
3. Provide monthly statements of investments and transactions, and quarterly performance reports.
4. Unless the account is a mutual fund or an exchange traded fund, the Investment manager will meet with the Committee at least annually, or more frequently if requested, to review the portfolio results, define distribution needs for the coming year, review the economic and market outlook, discuss the asset allocation and review this IPS to determine whether or not changes are appropriate.
5. Notify the Committee immediately of any material change in investment approach or significant changes in key personnel related to the management of the Fund.

The Committee:

1. Monitor the performance of the manager and the portfolio in the context of the achievement of stated investment objectives.
2. If the Board approves any change to this IPS or approves the purchase of any alternative investment, such change and approval will be communicated in writing to the manager, and signed by at least two members of the Committee including the Chair.
3. Neither the Committee, nor any individual Committee member, will direct the manager regarding the purchase or sale of any individual security, however, the Committee may self-manage the fund and will, in that case, review and approve its work with the Board of Directors and receive approval from the Board prior to taking any actions in order to maintain appropriate checks and balances.