



Investment Policy and Asset Allocation Guidelines

PHILOSOPHY

Beginning modestly, the Rancho Santa Fe Foundation funds have enjoyed significant growth in recent years. The assets support an ever broadening array of activities that assure the Foundation's future mission. The Investment Committee, ever mindful of their stewardship, have caused this statement to be prepared as a policy framework for a disciplined process that seeks to add value and minimize risk for the Foundation and those who benefit from these assets.

The primary goals of the Foundation for the investment of its liquid assets and the assets of other institutions it serves are as follows:

- Preservation of capital
- Sufficient growth of capital to offset the effects of inflation and provide for future needs
- Enhance the realization of the philanthropic goals of the Foundation and its constituent organizations.

INVESTMENT OBJECTIVES

The Funds are generally permanent funds with disciplined longer-term investment objectives and strategies that will accommodate relevant, reasonable or probable events. Careful management of the assets is designed to ensure a total return (income plus capital change) necessary to preserve and enhance (in real dollar terms) the principal of the funds and, at the same time, provide a dependable source of monies for current operations and programs of the Foundation and its clients.

DIVERSIFICATION OF INVESTMENTS

An asset allocation of approximately 60% equity type securities and 40% fixed income type securities is used by many endowment funds and other eleemosynary institutions in this country. The average in the U.S., however, is 70/30. Our goal will be to approach 70/30 as the size of assets approaches \$50-75 million. It has proven to be an effective compromise between the goals of investment performance and safety of principle. The Foundation's maximum investment in equities shall be 65% with an upper limit of 70%, with such limit achieved only through equity

appreciation. At such point that the upper limit of 70% is exceeded, equity exposure shall be reduced. The Board adopts this asset allocation policy in the belief that such an allocation has the best chance of maintaining the purchasing power of the funds while providing for the current needs of the Foundation and reducing overall volatility.

In recognition of the prudence required of fiduciaries, reasonable diversification will be sought at all times. Experience has shown financial markets and inflation rates are cyclical and therefore, control of volatility will be sought through diversification of asset classes and selection of investments that are diverse in nature.

ASSET ALLOCATION AND REBALANCING POLICY

Since the selection and weighting of asset classes is the primary determinant of investment return and volatility, asset choice will be carefully considered by the Investment Committee in accordance with a systematic allocation process derived from committee policy.

Investment performance will be viewed on a “total return” basis. This means that dividends, interest, and net appreciation or depreciation will be combined when evaluating investment performance and when considering the expenditure of funds in pursuing the mission of the Foundation. The equity portion of the portfolio shall consist of broadly diversified securities such as no-load mutual funds, exchange traded funds, and the like. The fixed income portion of the portfolio should consist of similarly well-diversified marketable instruments.

The assets of the Foundation shall be invested to achieve sufficient growth of capital to offset the effects of inflation and provide for future needs with a broadly diversified mix of asset classes and styles.

The target for the actual asset mix will be reviewed by the Investment Committee at their regularly scheduled meetings which usually occur quarterly, or reviewed more frequently as necessary. As part of this process, rebalancing or shifts in asset class weightings may be considered.

The Investment Committee will review the segment asset allocations at their regularly scheduled meetings and any changes in the allocations will be made after the meetings. In the case of major market movements resulting in significant variations, rebalancing of the segment allocations may be performed by the Finance Manager upon approval of the Chairman of the Investment Committee and the Executive Director. Should the Investment Committee Chair be unavailable to act, the Committee Vice-Chair shall act in his or her behalf.

A change in objectives or asset allocation strategy may require that funds be transferred between asset classes, to new asset classes, or among styles within asset classes. These changes may result in increases, decreases or elimination of fund investments. The Investment Committee shall not instruct the Fund’s allocation in equities to exceed the upper limit of 70% of Fund assets, nor a lower limit of 50% without the approval of the Board of Directors. Similarly, The Committee shall not instruct the Fund’s allocation in fixed income investments to exceed an upper limit of 50% of Fund assets, and a lower limit of 30% without Board approval.

INVESTMENT MANAGEMENT

Investment managers may be appointed following a systematic search for those with demonstrated quality in the style desired. To optimize access to such managers, while minimizing management fees and transaction costs assessed to the Foundation, no-load mutual funds and pooled funds may be considered together with separate account management. Managers shall be given discretion to manage funds entrusted in accordance with the style for which they are employed provided they comply with the restrictions and limitations as may be determined by the Investment Committee from time to time.

The Investment Committee currently uses mutual funds managed by The Vanguard Group as the core vehicle for retention of professional management of Foundation funds. The Committee believes they are among the lowest cost providers of investment advice in the world and have an excellent performance record. They offer a variety of funds and thus offer an ease of cash administration and changes in investment policy. The Committee further recommends that index funds be used where practical, due to their low cost, superior long term performance, low turnover and fully invested position.

The Investment Committee is delegated the responsibility of choosing among the various investment managers, funds, and separate accounts to carry out the Investment Policy set by the Board.

A fund that would represent a balance equal to approximately 10% of the total assets of the Foundation might be considered by the Investment Committee to be eligible for management by a manager(s), other than The Vanguard Group, of such type as described above and subject to approval by the Board of Directors.

EVALUATION OF MANAGERS

Equity manager(s) will be expected to achieve an annualized total rate of return over a three-year period which exceeds an appropriate market index rate of return by 1.5 percentage points compounded annually, net of costs and fees. Total return is defined as dividend or interest income plus realized and unrealized capital appreciation net of costs and fees. Evaluation of investment managers shall generally be for a three year trailing period after funds are deposited with the manager, unless decided otherwise by the Investment Committee.

The manager(s) will maintain a portfolio for the Foundation characterized by their respective traditional management styles and, if a change in such style is contemplated, the manager(s) is required to make advance written notification to the Foundation.

PERFORMANCE MEASUREMENT

Investment performance of the Foundation's assets will be measured net of management fees and transaction costs, taking into consideration investment policy and total return objectives.

The investment performance measurement technique shall be consistent with generally accepted practices within the investment industry. The Investment Committee shall be responsible for periodically reviewing the technique.

LIMITATIONS AND RESTRICTIONS

Individual securities shall not be generally be selected by the Investment Committee, with the exception of U.S. Government securities. With respect to any funds that may be managed by outside or third party managers, not more than 5% of those assets may be invested in the securities of any one issuer, again with the exception of the U.S. Government or its agencies. The following categories of investments are not permitted for investment without the Board's prior written approval:

- Unregistered or restricted stock;
- Commodities and Futures Contracts- including gold, precious gems or currency futures;
- Private placement debt - except as may be positioned in a commingled; fund which does not specifically emphasize private placements;
- Tax exempt securities - either state or federal;
- Conditional sales contracts and mortgages;
- Uncovered options;
- Hedge funds or venture capital;
- Trust Deeds;
- Short sales or margin purchases or purchases with debt either directly or within a commingled fund;
- Transferable certificates of participation in business trusts and limited partnerships;
- Securities of the investment managers or their respective parents, subsidiaries or affiliates;
- Securities in violation of California law;
- Collectables- including art, coins and stamps;
- Any investment which would give rise to Unrelated Business Income Tax "UBIT" as defined by the Internal Revenue Code.

Investments in companies doing business not in accordance with the policy statements of the Investment Committee may be permitted if they are consistent with an existing trust instrument, upon approval of the Board of Directors.

UPMIFA

As of January 1, 2009, UPMIFA (Uniform Prudent Management of Institutional Funds Act) was added to the California Probate Code to replace the prior and now-repealed UMIFA (Uniform Management of Institutional Funds Act). The new law, UPMIFA, makes some very important changes to California law regulating the management of endowment funds held by charities.

The Rancho Santa Foundation and its Investment Committee affirms compliance with UPMIFA and the text of California Probate Code section 18504, applicable to California "endowment" funds.