



## **INVESTMENT POLICY STATEMENT**

### **INTRODUCTION**

Rancho Santa Fe Foundation ("RSFF" or the "Foundation") provides stewardship for permanent endowment funds, funds held for other non-profit organizations and donor advised funds that provide resources for the charitable mission of the Foundation. The assets and income from these funds support an ever-broadening array of activities that assure the Foundation's future mission. This Investment Policy Statement ("IPS") establishes guidelines for the management and implementation of the investment portfolio (the "Portfolio") that is comprised of the above-mentioned funds and assets.

The primary goals of the Foundation for the investment of the Portfolio are as follows:

- Preservation of capital with appropriate liquidity
- Sufficient growth of capital to offset the effects of inflation and provide for future needs
- Enhancement of the realization of the philanthropic goals of the Foundation and its constituent organizations

### **ROLE OF THE INVESTMENT COMMITTEE**

The Investment Committee (the "IC") acts in a fiduciary capacity with respect to the Portfolio, and is accountable to the Board of Rancho Santa Fe Foundation and the Executive Committee thereof, for overseeing the investment of all assets owned by or held in trust for, the Portfolio.

- A. The IC, ever mindful of their stewardship duties, has caused this Investment Policy Statement to be prepared. This IPS sets forth the investment objectives, distribution policies and investment guidelines that govern the activities of the IC and any other parties to whom the IC has delegated investment management responsibility for Portfolio assets. The IC as part of its preparation of this IPS has considered the requirements of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as set forth in sections 18501-10 of the California Probate Code. UPMIFA became effective as of January 1, 2009. It is the intention of the IC to conduct its business and procedures and to establish its policies in compliance with those provisions of UPMIFA that are applicable to the role and investment management and oversight activities of the IC.
- B. The investment policies for the Portfolio have been formulated with the understanding of the Foundation's anticipated financial needs and with consideration of the tolerance for investment and financial risk of the RSFF, as reflected in the majority opinion of the IC.
- C. IPS policies and guidelines are intended to provide for the consistent management of the Portfolio to meet the financial goals, short-term and long-term, of the Foundation while also providing for sufficient investment flexibility to respond to changes in capital market conditions and in the financial circumstances of the Foundation.



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- D. The IC will review this IPS at least once per year. Changes to the IPS can only be made by the affirmation of a majority of the voting members of the IC followed by ratification by the Board of the RSFF. All IC and RSFF Board members will have access to the current IPS. The current IPS will be promptly provided to any other parties hired by the IC on behalf of the Foundation to manage any portion of the Portfolio.

## **INVESTMENT OBJECTIVES**

The Portfolio is comprised of two component strategies, the Stable Value and Cash Pool ("SVCP") and the Endowment Pool ("EP").

The investment objective of the SVCP is to maintain the value and liquidity of funds by investing in cash and near cash investments such as money market funds, US treasury securities, bank certificates of deposit and such other investments of this type that the IC shall select. The credit quality of these investments shall be high and the maturities shall be short term. Since this strategy is useful for funds that may be dispersed in the near term, the liquidity of this strategy shall be a prime objective.

The investment objective of the Endowment Pool is to provide for a disciplined longer-term and higher risk and return investment program that is consistent with the needs of permanent endowments and longer horizon non-profit funds and donor advised funds. Careful management of the EP is designed to ensure a total return (income plus capital change) necessary to preserve and enhance (in real dollar terms) the principal of the EP and, at the same time, to provide a dependable source of monies for current operations and programs of the Foundation and its donors. The EP is generally comprised of listed domestic and global equity securities, domestic and global fixed income securities and cash and cash equivalents. Asset allocation guidelines are set forth in the section below.

Foundation donors with the appropriate investment authorities for the funds they have domiciled at the RSFF can direct those funds to be allocated in any proportion to the SVCP and EP strategies if such proportion better meets their investment objectives as compared to investing such funds in their entirety in either of the SVCP or EP alone.

## **DISTRIBUTION POLICY**

Periodically as required by the activities of the Foundation, the Finance Director will inform the IC of the charitable gift distribution amounts for the Foundation and its donors whose funds are managed within the Portfolio. The IC will set the procedures by which the required funds for distribution are raised within the SVCP, EP or both to meet such distribution needs.

In consultation with the Chief Executive Officer and Finance Director, the IC will cause to be distributed from the Portfolio to the RSFF on an agreed schedule the annual administrative fees (charged as a percentage of assets) for all funds that are invested within the SVCP and the EP. The Finance Director will provide the IC with the calculation of such fees as and when a payment is required.



## **PORTFOLIO INVESTMENT POLICIES**

### **A. ASSET ALLOCATION POLICY: STABLE VALUE AND CASH POOL**

The IC shall maintain the principal value and near term liquidity of the SVCP by investing in cash and domestic cash equivalent securities including among others, bank deposits, money market funds, short-term US Treasury securities, bank Certificates of Deposit or such other investments that the IC approves that meet the liquidity and principal protection objectives in the SVCP strategy. The Diversification Policy below shall be applied to the SVCP.

### **B. ASSET ALLOCATION POLICY: ENDOWMENT POOL**

Since the selection and weighting of asset classes comprising the EP is the primary determinant of investment return and volatility, asset choice will be carefully considered by the IC in accordance with a systematic allocation process derived from IC policy. The EP shall be invested to achieve sufficient growth of capital to offset the effects of inflation and provide for future needs by investing in a broadly diversified mix of asset classes and styles.

The EP will be implemented and managed as a growth oriented portfolio composed of two major components: an equity portion and a fixed income portion. The equity allocation is expected to provide the long-term real growth of the EP assets. The fixed income portion is expected to generate current income and provide for more stable periodic returns while providing some protection against a prolonged decline in the value of the equity investments of the EP. The equity portion of the portfolio shall consist of broadly diversified domestic and global securities held in no-load mutual funds (including broad indexed funds), exchange traded funds (ETFs) and similar listed funds. The fixed income portion of the portfolio should consist of domestic and global fixed income securities (including bonds convertible into equities) held in no-load mutual funds, exchange traded funds (ETFs) and similar listed funds, such as money market funds.

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 IC should give preference to investments that have the lowest cost or investment fees. While not excluding actively managed equity or fixed income funds, the IC should insure that the extra costs involved have a strong probability of being offset by higher returns from such a fund.

Outlined in the table on the next page are the long-term strategic asset allocation guidelines for the EP as determined by the IC to be appropriate to meet the financial goals and objectives, both short and long-term, of the Foundation:



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## **Major Asset Class**

## **Maximum Percentage of Total EP Assets**

Equity  
Fixed Income

70%  
50%<sup>(a)</sup>

## **Major Asset Class**

### **Sub asset Class**

## **Maximum Percentage of Major Asset Class**

Equity

US domestic  
Non-US

100%  
110% of intl. weighting of ACWI

Fixed Income

US domestic bonds  
Non-US bonds  
Below investment grade bonds  
Cash & Equivalents

100%  
10% / (a)  
10% / (a)  
10% / (a)

The target allocations to the major asset classes and sub asset classes will be set not to exceed the maximum percentages detailed above. The target asset allocations will be reviewed and established by the IC at its regularly scheduled meetings which occur quarterly, or reviewed more frequently by the IC at the discretion of the IC Chair should unusual circumstances arise between the scheduled meetings. As part of this process, rebalancing or shifts in major asset and sub asset class weightings may be considered. After establishing the target allocations, the IC will select the specific qualifying investment funds within the sub asset classes such that the target allocation to the sub asset class is fulfilled. The Diversification Policy set forth below shall be applied to the EP.

Any changes to the EP must be approved by a majority of the voting members of the IC. Approved changes shall be implemented by the IC Chair by delivery of a signed Asset Allocation Form specifying the approved changes and implementation instructions to the Chief Executive Officer and Finance Director. The Asset Allocation Form will be attached to the Minutes of the IC Meeting and made available to all members.

## C. ALTERNATIVE ASSETS

To date in its history, the Portfolio has not been invested in alternative assets such as hedge funds, venture capital funds, directly held real estate, and other real assets such as commodities, timber and energy. Many of these investments have not met the liquidity, risk and return, and low cost investment management fee objectives of the IC. As the Portfolio increases in size over time, the IC will monitor the performance of the alternative assets class through publicly available information and periodically review this policy.

If, as a result of RSFF Board approved acceptance of a contribution or transfer of an existing investment fund or endowment trust or other fund, the Portfolio receives investments that are alternative class assets in the opinion of the IC, then these assets will be assigned to a new major asset class for the EP named Alternative Assets. The IC will reset the major class and sub asset class allocations to incorporate an



allocation to the Alternatives class. In no event should the maximum allocation to Alternatives exceed 15% of the EP total assets.

The IC will be under no obligation to maintain allocations to any alternative asset and may sell, reduce and eliminate such investments from the EP as permitted by liquidity events, redemptions, and contractual terms and provisions of such alternative investments. The Foundation will not accept contributions of any investment funds or assets with unfunded capital commitments or pending cash shortfalls from obligations due without the express approval of both the IC and RSFF Board of Directors.

#### D. REBALANCING

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of varying returns earned on its investments in different asset and sub asset classes. The EP will be rebalanced to its approved target asset allocation under the following procedures:

Incoming cash flow from contributions and outgoing money movements for disbursements may be used to realign the current weightings closer to the target allocations for the EP.

The IC will review the Portfolio at each of its scheduled meetings to assess the deviation from target allocations. In the event that any asset class (equity or fixed income) in the EP is +/- 5 percentage points from its target weighting then the EP will be rebalanced. If any individual sub asset category investment is +/- 20 percent from its target weighting then that fund can be rebalanced at the discretion of the IC to a weighting closer to its target allocation.

The IC may provide a rebalancing recommendation at its scheduled meetings or at any time between meetings. The Chair of the IC will use best efforts to consult the IC should a rebalancing need arise from unusual events or capital markets developments between meetings. The IC Chair, with the knowledge and consent of the Chief Executive Officer of the Foundation, may cause the Finance Director to effect a rebalancing with the exact instructions to be confirmed in written form (including electronic mail).

The IC will act in a timely manner to address deviations in which the equity and fixed income asset classes are above their stated maximums or below their stated minimums in the asset allocation guidelines set forth above.

#### E. DIVERSIFICATION OF INVESTMENTS

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.

The IC will take reasonable precautions to identify and avoid excessive investment concentrations in the EP. Specifically, no single underlying investment security shall represent more than 5% of the total EP assets, with the exception of fixed income investments explicitly guaranteed by the U.S. government. No single investment pool or mutual fund shall comprise more than 20% of total EP assets, with the exception



of passive managed investment funds seeking to match the returns of a broadly diversified market index (for example an S&P500 Index fund).

The IC shall be responsible for setting the average maturity, duration, credit quality and diversification of the overall fixed income asset class in the EP taking into consideration the prevailing interest rates and market expectations.

#### F. 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 Portfolio or the RSFF, 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 IC from time to time.

The IC is delegated the responsibility of choosing among the various investment managers, funds, and separate accounts to carry out its responsibilities pursuant to this IPS. When selecting a manager, the IC shall inquire as to the custodial arrangements for the investment. The custodian should be independent of the manager, with no conflicts of interest, and preferably have national stature in its industry.

The IC currently uses mutual funds managed by The Vanguard Group as its core implementation program for the provision of professional investment management of the Portfolio. The IC believes The Vanguard Group is among the lowest cost providers of investment advice and mutual funds and ETFs in the world and has an excellent performance record. Vanguard offers a variety of funds and offers an ease of cash administration and changes in investment allocations within asset and sub asset classes. The IC 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 IC may appoint outside or accept outside managers for funds within the EP at its discretion with subsequent ratification by the RSFF Board. The funds assigned to an outside manager must represent a meaningful portion of the EP. The IC guideline is the lower of \$5 million or 5% of the total assets of the EP.

#### G. EVALUATION OF INVESTMENT MANAGERS

Active equity manager(s) will be expected to achieve an annualized total rate of return over a three-year period that 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 IC.



The investment manager(s) will maintain an investment portfolio characterized by their respective management style when selected to manage for the Foundation by the IC. If a change in such style is contemplated, the investment manager(s) is required to make advance written notification to the IC explaining the reasons for changing the style.

#### H. PERFORMANCE MEASUREMENT

Investment performance of the Portfolio will be measured net of investment 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 IC will evaluate the composite performance of the Portfolio against (a) the long-term return objective for the Portfolio, and (b) such benchmarks established by the IC, comprised of unmanaged market indexes alone or weighted into a composite benchmark, as to be representative of the Portfolio's composition.

The IC shall be responsible for periodically reviewing the performance measurement process.

#### I. LIMITATIONS AND RESTRICTIONS

As a general matter, individual equity or fixed income securities shall not be selected by the IC, with the exception of U.S. Government securities. Investments in companies doing business not in accordance with the policy statements of the IC may be permitted if they are consistent with an existing trust instrument, upon approval of the Board of Directors.

Certain categories of investments that are not approved for use by the IC for use in the Portfolio are set forth in Appendix A: List of Restricted Investments to this IPS.

*Last IC Review/Approval: Aug 8, 2017*  
*Last Executive Committee Review: December 12, 2018*  
*Last RSFF Board Approval: January 16, 2019*



## **IPS: APPENDIX A**

### **List of Restricted Investments**

The IC will not be permitted to invest in or cause the Portfolio to hold investment strategies or securities of the types listed below without the express approval of the Executive Committee or Board of the Foundation after receipt of a written recommendation from the IC setting forth the reasons justifying the exception:

- Unregistered or restricted stock;
- Hedge funds;
- Venture Capital funds or direct investments in early stage companies;
- Leveraged buy-out or illiquid private equity funds
- Uncovered options and options used for speculative purposes or leverage;
- Short sales or margin purchases or purchases with debt;
- Transferable certificates of participation in business trusts and limited partnerships;
- Securities of the investment managers or their respective parents, subsidiaries or affiliates;
- Commodities and Futures Contracts- including energy, precious and other metals, currency and agricultural and other commodities;
- 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;
- Trust Deeds;
- Collectibles- including but not limited to: art, coins, precious gems, and stamps;
- Securities in violation of California law; and
- Any investment that would give rise to Unrelated Business Income Tax "UBIT" as defined by the Internal Revenue Code.



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## Broker Instructions to Transfer Stock

To: \_\_\_\_\_  
(Name of Donor's Broker)

Please accept this as my instruction to transfer # \_\_\_\_\_ shares of  
(Name of stock) \_\_\_\_\_  
(common) / (preferred) from account # \_\_\_\_\_ to the following:

UBS Financial Services, Inc. – DTC #0221  
Attention: Stephen Seiber  
1200 Prospect Street, Suite 500  
La Jolla, CA 92037

For the Benefit of: Rancho Santa Fe Foundation  
Account #: VR-34510-12  
For Credit to: \_\_\_\_\_  
(Name of Fund at RSFF)

**Upon the execution of this transfer, please contact Christina Wilson at Rancho Santa Fe Foundation 858-756-6557, to advise her of the pending transfer to the UBS Financial Services, Inc. account.**

Thank you for your attention to this matter.

Sincerely,

Mr. / Mrs. \_\_\_\_\_ Date \_\_\_\_\_  
Address \_\_\_\_\_  
City, State, Zip \_\_\_\_\_

\_\_\_\_\_  
Donor Signature

**Note to Donor: Please send a copy of this transfer form to the following at the same time that you submit to your broker. Rancho Santa Fe Foundation will not be responsible for securities or the losses that may accrue to them if we are not immediately notified of your transfer. Thank you.**

Cc: Mr. Stephen Seiber  
UBS Financial Services, Inc.  
1200 Prospect Street, Suite 500  
La Jolla, CA 92037  
Phone: 800-231-9628  
Fax: 858-551-0748  
[stephen.seiber@ubs.com](mailto:stephen.seiber@ubs.com)

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## Wire Transfer Instructions

Rancho Santa Fe Foundation can accept charitable donations by way of direct wire transfer into their checking account at First Republic Bank. Please direct your transfer to the following account:

The Rancho Santa Fe Foundation  
c/o First Republic Bank  
12626 High Bluff Drive, #400  
San Diego, CA 92130

Routing # - 321081669  
Account # - 80006246690

Please include the name of the beneficiary fund at Rancho Santa Fe Foundation to receive your contribution in your wiring instructions.

Upon the execution of the transfer, please contact Christina Wilson at Rancho Santa Fe Foundation at 858-756-6557 or [christy@rsffoundation.org](mailto:christy@rsffoundation.org) to advise her of the pending transfer to the First Republic Bank account.