

4 Investment Policies

4.1 Introduction

Last Board approval 05/15/2024

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 giving. The assets and income from these funds support an ever-broadening array of activities that assure the Foundation's future mission or purpose to serve our communities and donors. 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
- Support for the operating expenses of the Foundation

4.2 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 the Foundation and the Executive Committee thereof, for overseeing the investment of all assets of 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.
- 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 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.

4.3 Investment Objectives

The Portfolio is comprised of three component strategies, the Cash and Short-Term Investment Pool (“CSTIP”), the Endowment Pool (“EP”) and the Environmental, Social and Governance Pool (“ESGP”).

The investment objective of the CSTIP 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 investment program that is consistent with the needs of permanent endowments, longer horizon non-profit funds and donor advised funds. Careful management of the EP is designed to ensure a total return (income plus capital appreciation) 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 funds invested in 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.

The investment objective of the ESG Pool is, to the extent possible, to track the asset allocation and performance of the EP using low cost, liquid index funds that have been screened by the fund manager for certain environmental, social, and corporate governance criteria. ESG Pool funds will typically exclude or limit stocks of companies in the following industries: adult entertainment, alcohol, tobacco, weapons, fossil fuels, gambling, and nuclear power. ESG Pool funds will typically exclude stocks of certain companies that do not meet standards of U.N. global compact principles and companies that do not meet certain diversity and governance criteria.

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 among the CSTIP, EP and ESGP strategies in order to meet their specific investment objectives.

4.4 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 CSTIP, EP, ESGP or any combination of the three funds 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 RSFF on an agreed schedule the annual administrative fees (charged as a percentage of assets) for all funds that are invested within the CSTIP, EP and the ESGP. The Finance Director will provide the IC with the calculation of such fees as and when a payment is required.

4.5 Portfolio Investment Policies

4.5.1. Asset Allocation Policy: Cash and Short-Term Investment Pool

The IC shall maintain the principal value and near-term liquidity of the CSTIP 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 CSTIP strategy. The Diversification Policy below shall be applied to the CSTIP.

4.5.2. Asset Allocation Policy: Endowment Pool

Since the selection and weighting of asset classes comprising the EP and ESGP are the primary determinant of investment return and volatility, asset choice will be carefully considered by the IC in accordance with an asset allocation process derived from this IPS. The EP and ESGP 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 and ESGP will be implemented and managed as a total return 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 and ESGP 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 and ESGP. 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.

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

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

<u>Major Asset Class</u>		<u>Maximum Percentage of Total EP and ESGP Assets</u>
Equity		80%
Fixed Income		60%

<u>Major Asset Class</u>	<u>Sub Asset Class</u>	<u>Maximum Percentage of Major Asset Class</u>
Equity	US domestic	100%
	Non-US	110% of intl. weighting of ACWI
Fixed Income	US bonds and Cash & equivalents	100%
	Non-US bonds	10%
	Below investment grade bonds	10%

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 and ESGP.

Any changes to the EP and ESGP must be approved by a majority of the voting members of the IC and documented in the Asset Allocation Form. The Asset Allocation Form will be attached to the minutes of the IC meeting and made available to all members.

4.5.3 Alternative Assets

To date in its history, the Portfolio has not been invested in alternative assets such as hedge funds, venture capital funds or directly held real estate. Many of these investments have not met the liquidity, risk and return, and low-cost investment management fee objectives of the Portfolio. 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.

4.5.4 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 major asset and sub asset classes. At the discretion of the IC, the EP and ESGP 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 and ESGP.

The IC will review the Portfolio at each of its scheduled meetings to assess the deviation from target allocations. In the event that any major asset class (equity or fixed income) in the EP and ESGP is +/- 5 percentage points from its target weighting, the IC will consider rebalancing the EP and ESGP to, or partially to, the established targets.

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 affect 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.

4.5.5 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 and ESGP. Specifically, no single underlying investment security shall represent more than 5% of the total EP and ESGP 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 and ESGP assets, with the exception of passively managed investment funds seeking to match the returns of a broadly diversified market index (for example an S&P 500 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 and ESGP taking into consideration the prevailing interest rates and market expectations.

4.5.6 Investment Management

Investment managers may be selected following a systematic search for those with demonstrated quality and experience in the asset class and 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 separately managed accounts within 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 may appoint outside or accept outside managers for funds within the EP and ESGP 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 and ESGP. The IC guideline is the lower of \$5 million or 5% of the total assets of the EP and ESGP.

4.5.7. Evaluation of Investment Managers

Active 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, net of costs and fees. 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.

4.5.8 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, which are 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.

4.5.9 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.

4.5.10 Excess Business Holdings

The Pension Protection Act of 2006 amended section 4943 of the Internal Revenue Code to limit ownership of closely held business interests in a donor advised fund. A fund's holdings, together with the holdings of disqualified persons (donor, advisor, members of their families and businesses they control) may not exceed any of the following:

- 20% of the voting stock of an incorporated business
- 20% of the profits interest of a partnership, joint venture, or the beneficial interest in a trust or similar entity
- Any interest in a sole proprietorship

The Foundation does not accept any excess business holdings in any component fund, whether donor advised or otherwise.