



## **Investment Policy Statement**

*Revised October 2025*

The Community Foundation San Luis Obispo County is committed to advancing our core mission to inspire philanthropy and serve as a catalyst for community impact. It is our vision that San Luis Obispo County will be an enduring, thriving and engaged community. It is our goal to enhance our local community by incorporating our core values of collaboration, excellence, inclusion, integrity, and stewardship in all we do. We believe in sustainable investing to support our goals and create impactful giving opportunities.

## **Statement of Purpose**

The Investment Policy Statement (“IPS”) presents the investment process for The Community Foundation San Luis Obispo County’s (The Foundation) portfolio of investments (Portfolio), including investment objectives, asset allocation, investment restrictions, and review procedures. The primary objectives of The Foundation’s Investment Program is to maintain a Portfolio to achieve long-term returns, net of investment expenses, designed to meet or exceed annual spending and inflation (the “Investment Program”) ultimately allowing asset growth through capital appreciation, preserving the purchasing power of the asset base, and providing support for The Foundation’s grantmaking and operations.

The IPS is intended to:

- State The Foundation’s objectives and guidelines for the investment of Endowed, Spendable-endowed and Non-endowed assets;
- Set forth an investment structure that includes various asset classes, each asset class’s acceptable ranges, investment management styles, asset allocations and acceptable ranges consistent with The Foundation’s long-term objectives;
- Address the overall level of risk and liquidity in accordance with the objectives;
- Establish criteria to monitor, evaluate and compare the performance relative to appropriate benchmarks; and
- Define suitable investments.

The Foundation’s IPS describes an investment process intended to consistently embrace diversification to achieve return objectives during a variety of economic and market conditions. This IPS is not a contract, nor does it imply a guarantee of future investment results; it is a dynamic tool subject to revision based on changes in The Foundation’s investment objectives. The IPS is designed to inform the implementation of an investment strategy with specific parameters reflecting the Board’s philosophy, thereby providing the Investment Committee, Foundation staff and any professional advisors managing these assets clearly defined policies and objectives. These policies and objectives are intended to govern the investment activity, but they are also designed to be sufficiently flexible to be practical. This IPS governs assets of commingled Endowed, Non-endowed, and Spendable-endowed funds. The investment strategies and restrictions for these funds are established via each fund’s establishing documents and are accommodated by these guidelines.

## Performance Goals and Objectives

### Endowed Pool

Statement of Objectives: The Foundation is committed to managing our Portfolio in accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA governs the investment, management, and expenditure of endowment funds and provides guidance for prudent investment practices. For Endowed and Spendable-endowed funds, The Foundation's primary objective is to preserve the Portfolio's real value through asset growth at least equal to the Spending Policy, plus administrative and investment fees, plus the rate of inflation. To ensure a predictable level of funds, a total return spending policy has been adopted. This policy is reviewed and revised annually by the Investment Committee and is approved by the Board. This policy provides for a certain percentage spending of the rolling 12-quarter average market value for endowment funds, not to exceed accumulated earnings, in accordance with applicable laws, regulations and fund agreements.

The Foundation is committed to a Portfolio of highly diversified, cost-managed, liquid investment vehicles which seeks to keep trading and vehicle fees to a minimum. The portfolios will seek to maximize long-term financial returns while keeping risks in line with the prescribed asset class ranges, and relative to the mix of selected benchmarks.

Time Horizon: The Foundation was formed as a permanent institution with long-term investment objectives. The Foundation has adopted a strategic asset allocation with a long-term horizon extending well beyond normal capital market cycles.

Risk Tolerance: The Foundation acknowledges that risk must be assumed to achieve long-term investment objectives to balance risks relative to returns. The Foundation uses two primary factors in evaluating risk tolerance:

- Financial ability to accept temporary risk of loss within the Investment Program.
- Willingness to accept return volatility.

Based on these factors, The Foundation has adopted a moderate risk tolerance to market volatility.

Performance Expectations: The Investment Program and overall Portfolio is designed on a Total Return Approach, including both current income (interest and dividends) and capital appreciation. Achievement of the investment will be monitored quarterly but evaluated over a full market cycle (customarily more than 5 years).

### Asset Allocation

The asset allocation (the mix of asset classes) determines the risk profile and expected return of the portfolio. The Foundation has reviewed the long-term risk and return characteristics of

various asset classes and developed the IPS Asset Classes and Limits. These Asset Class Limits lay out the minimum and maximum percentages held (see chart on page 6 asset class limits).

The asset allocation may be implemented through any combination of institutional Mutual Funds, Exchange Traded Funds (ETFs), individual securities, Separately Managed Accounts (SMA's), passive strategies designed to mirror an index, actively managed accounts, and limited partnerships.

### **Alternative Investments**

Subject to approved asset allocation policies, The Foundation may invest in a broad range of alternative strategies, intended to provide broad diversification across Investment Manager styles and strategies while providing low correlations to traditional fixed income and equities. The strategies may include real estate, energy and natural resources, private equity, commodities, managed futures, hedging strategies using options and other derivatives, absolute return, and opportunistic equity.

The evaluation process for alternative strategies, and associated Investment Managers, will be based on both quantitative and qualitative due diligence and research. In many cases, these investments will be implemented via limited partnerships. Therefore, restrictions are established by the offering documents for each partnership. The Committee will consider partnership management fees and restrictions on immediate liquidity when evaluating limited partnership documents.

### **Non-Endowed Pool**

Statement of Objectives: The Foundation holds and manages temporary and Non-endowed Funds for its charitable purposes. For Non-endowed Funds, the primary objective is to preserve capital and have liquidity on a short-term basis. These funds may be invested in cash or short-term instruments with a maturity date not to exceed one year, except where predicted cash needs can be accommodated using time deposits. The same objectives will be applied to multi-year scholarships that have been encumbered.

Such investments may be housed in cash accounts at banking organizations, broker dealers, other custodians (see MRI discussion), with the Investment Advisor, or other reputable financial institutions. Cash and short-term instruments will be placed to preserve liquidity and maximize return. Any earnings on Non-endowed Funds will revert to The Foundation.

Time Horizon: The Foundation allows for non-endowed funds which by their nature are held for a limited period. This portfolio is invested to achieve positive investment returns while safeguarding against stock market volatility. Asset class allocation percentages exclude non-endowed funds.

Risk Tolerance & Performance Expectations: The Foundation will seek to maximize returns while ensuring capital preservation and minimizing market risk in accordance with short-term investment objectives.

Limitations and Considerations for Investments placed at banks:

- The Foundation acknowledges that funds placed with banking institutions may provide leverage in the local community. Banking institution preference may be given to those entities which demonstrate that they support the community through lending to low-moderate income residents, demonstrate a commitment to local lending activities, and have achieved a “Satisfactory” or better Community Reinvestment Act rating.
- The maximum amount in any banking institution shall not exceed the amount of insurance provided by the FDIC, except where the depository bank collateralizes our assets, in which case the limit will be according to the collateralization agreement.
- Funds placed at local banks shall be comprised of Non-endowed Funds only, except for encumbered endowed funds for scholarships, so are not included in the endowment pool asset allocation strategy.
- The duration of Certificates of Deposit (CD’s) will be determined at the opening of the CD but shall not exceed three years.
- Preference will be given to local banks with offices in San Luis Obispo County where advisable.
- All banking investments must be approved by the Investment Committee prior to funding.

## Asset Classes and Limits

Asset Class	Asset Class Detail	Lower Limit	Upper Limit
Equities - Domestic	Domestic, International & Emerging Market Equities	50%	85%
Fixed Income and Cash Equivalents	Domestic Core Fixed Income	15%	50%
	Global Fixed Income		
	Emerging Market Fixed Income		
	High Yield Fixed Income		
	Distressed		
	Cash/Short Duration		
Alternative Strategies	Commodities	0%	20%
	Infrastructure		
	Hedge Funds		
	Private Capital		
Real Assets	Real Estate	0%	10%

**\*ESG upper and lower limits (0-100%)**

**\*MRI Investments: 1% to a single counterparty limit, 5% of total endowment limit**

## Sustainable Investing

The Foundation is dedicated to creating impact through sustainable investing. Sustainable investing is an investment discipline that considers Environmental, Social and Governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact through investments that support environmental sustainability & resource efficiency, equitable societies & respect for human rights, and accountable governance & transparent operations.

Sustainable investing supports and aligns with the values of The Foundation and has the potential to enhance the community's long-term development and growth. Because of this, the Foundation wishes to allocate part of its endowment portfolio to ESG investing.

The Investment Committee acknowledges that within commingled accounts or mutual funds, it may not have the ability to direct the specific inclusion or exclusion of securities, and that ESG considerations are only one of many considerations in selecting or retaining investment strategies. However, the Committee intends to consider environmental, social, and governance issues in its Asset Classes and Limits guidance to its Investment Advisor. Sustainable investments will not be treated as a separate asset class but will be included in the asset class with the approved ranges of our strategic asset allocation (e.g. a US equities ESG ETF will be included in the US equities allocation).

The Foundation intends to invest in companies and other issuers that promote our mission & values. There may be instances, however, where such information may not be available for certain asset classes. In these cases, the Investment Committee will determine if investment in

the asset class(es) is acceptable. The funds are subject to The Foundation's asset class allocation guidelines and limits. Investments chosen will also be monitored for performance on a quarterly basis.

The investment committee is committed to pursuing ESG compliance in its sustainable portfolio; however, due to the dynamic nature of the product landscape, occasional discretion may be required when the unequivocal sustainability of a specific investment or product is not guaranteed.

### **Mission-Related Investing (MRI)**

The Foundation may invest in San Luis Obispo County companies, agencies, or intermediaries that support and promote a healthy and vital community. Our aim is to maximize overall social impact in SLO County communities in need, while maintaining minimal risk level to the funds invested. Analysis of risk to preserve capital shall be done prior to any commitment of Foundation funds. The Foundation wishes to maintain some of its assets in mission-related investments.

#### Funds may be used to provide:

- New types of leverage directly in communities that can promote jobs, housing, economic development, and financial services for low-income residents in SLO County.
- Opportunities providing impact now and into the future.
- Opportunities providing a high social return as well as a financial return consistent with the policy.
- Opportunities that allow The Foundation to act as a partner and to promote the engagement of other SLO County institutions and donors.

#### Limitations and Considerations for Loans Given:

- Assets may only be used, with prior approval of the Board, from The Foundation's endowed funds.
- Investment time duration for any single investment shall not exceed five years without the written approval of the Board of Directors, however, renewal of a successful investment at the end of its term will be considered.
- MRI loan rates may be at or below current market rates at the time of the award.
- The Foundation shall seek full, matching, or partial loan participation positions based on the financial strength of the borrowing organization, the size of the borrowing organization and The Foundation's MRI portfolio capacity.
- The Foundation shall consider geographic diversity within San Luis Obispo County when making MRI loans. Additionally, the Grants and Investment Committee will have dual authority to review and recommend mission-related investment.

### Stewardship Funds

The Foundation will offer nonprofit partners the opportunity to invest alongside the Foundation as part of a focus on forming more comprehensive strategic alignment with these important community stakeholders. In addition to providing investment options, the Foundation will leverage its ability to handle complex gifts as another service to nonprofit partners. Gifts of stock, real estate, business interest and other complex assets are often difficult for smaller nonprofit organizations to handle, as there are few options available to them. Additionally, Funds at the Foundation are fully supported from an administrative support standpoint, including gift acknowledgment, tax receipts, gift and grant reporting, and an online portal to access information and request distributions (this technology will be a 2026 addition).

In addition to offering our long-term endowment pool as an investment option, the allocation ranges below will be added in an effort to appropriately address varying time horizons and risk appetites amongst this group of organizations. We will also offer a money market pool.

Asset Class	Asset Class Detail	Conservative Pool (30/70)		Moderate Pool (50/50)	
		Lower Limit	Upper Limit	Lower Limit	Upper Limit
Equities - Domestic	Domestic, International & Emerging Market Equities	25%	35%	45%	55%
Fixed Income and Cash Equivalents	Domestic Core Fixed Income	65%	75%	45%	55%
	Global Fixed Income				
	Emerging Market Fixed Income				
	High Yield Fixed Income				
	Distressed				
	Cash/Short Duration				
Alternative Strategies	Commodities	0%	0%	0%	0%
	Infrastructure				
	Hedge Funds				
	Private Capital				
Real Assets	Real Estate	0%	5%	0%	5%

### Portfolio Rebalancing

The Investment Committee has established specific limits for each asset class in the endowed funds. Asset allocation is the most critical component of a portfolio’s return and drives the majority of the returns. The purpose of rebalancing is to maintain the risk and return relationship stated in the long-term strategy and helps prevent the risk profile of the Foundation’s investments from changing over time. By maintaining desired risk levels (in the form of allowable asset class ranges), the Investment Committee can properly evaluate the long-term portfolio strategy in a manner that is consistent and reliable.

The Board recognizes that there are many factors that impact the timing of investment decisions, such as the severity of portfolio drift, the condition of macroeconomic and

geopolitical affairs, and the changes in long-term input data that may call for possible tactical investment decisions. The investment advisor has discretion to rebalance the portfolio within the upper and lower allocation limits at any time.

## **Spending Policy**

The Investment Committee will consider several factors when designing its Spending Policy for its endowed funds. The Committee will prioritize the preservation and sustainability in perpetuity of The Foundation's assets. The Spending Policy will be designed to support the mission and goals of The Foundation. General economic conditions will be considered when determining the annual distribution. Similarly, possible effects of inflation or deflation on the distribution and the endowed principal should also be measured. Additionally, the total return on the assets, net of fees and accounting for inflation, must be greater than the effective distribution rate. As such the Spending Policy should consider what returns are realistic relative to the return, risk, and liquidity of the portfolio. The policy will also consider other shorter-term resources of The Foundation which may be useful in designing its annual distribution. Finally, the effect of the Investment Policy Statement itself is also recognized in terms of the potential effect on total returns and annual distributions. The Spending Policy will be reviewed at least annually with respect to the above factors and recommended to the Board for approval.

The Investment Committee will maintain annually a Spending Policy which will determine the spending limits for the following year. The amount determined for the distribution of grants shall be calculated each year by averaging the previous 12 quarters of a fund's balance. The result will be the maximum available grantmaking amount for the next fiscal year also known as the available to spend amount.

## **Monitoring and Measurement**

The fund's performance, and by extension that of the Investment Advisor hired on behalf of the Foundation, will be measured against the following benchmarks over a suitably long-term investment horizon, generally across full market cycles or, at minimum, on a rolling five-year basis:

- Absolute return objective:
  - $\text{CPI} + 3\% \text{ spend rate} + 1\% \text{ admin fee}$ .
- Policy benchmark: A strategy-based composite index appropriately selected or tailored to the Investment Advisor's agreed upon investment objective and normal investment characteristics.
- Peer relative return: Community Foundations: Annual Council on Foundations-Common fund Study of Community Foundations, using the range of endowment size category matching the total collective dollar amount of the fund.

## **Externally Managed Funds**

In limited circumstances, The Foundation may allow charitable assets to be managed by external advisors chosen by the donor. Guidance and oversight of these external assets are the responsibility of The Foundation's Investment Committee. These assets are not managed by the Investment Advisor responsible for The Foundation's Investment Program.

These external advisors will adhere to:

- The Foundation's policies and procedures pertaining to the advisor firms' qualifications
- The Foundation's IPS, including asset allocation guidelines.
- The Foundation's reporting protocols.
- Providing Foundation staff with their own Investment Policy Statement for that relationship.

Each donor who requests an external advisor must contribute at least \$5M to a fund before being considered for this arrangement, unless otherwise approved by the Investment Committee. Because of the additional risk and effort associated with monitoring and reporting on these assets, each donor who requests this external advisor arrangement must be approved by the Investment Committee.

Each new opportunity of this kind will be subject to Investment Committee approval, followed by a vote by the Board of Directors.

The Foundation reserves the right to terminate the relationship with the external advisor at any time and move those assets into The Foundation's Investment Program.

### Advisor Standards

An external advisor must agree to the following standards:

- Be registered with appropriate regulatory agency with no material litigation pending or in process
- Disclose any real or perceived conflicts of interests that may exist.
- Confer with Foundation Staff and document the asset allocation strategy and other factors regarding the management of Foundation assets.
- Inform The Foundation in a timely manner of all fund investment activities, returns, fees, compliance issues and any other material information relevant to their engagement.
- Consistent with IRS requirement, recognize The Foundation as the primary owner of the funds under management by the advisor.
- Be approved by Board of Directors upon recommendation from Investment Committee

### Asset Allocation Guidelines for Externally-Managed Funds

Foundation staff and the Investment Committee will identify an appropriate risk/return investment profile for the management of the fund. As a result of discussions between The Foundation and the external advisor, one of the following asset allocation targets will be selected, documented and used as the guide for managing and reporting fund activities.

The Foundation Board must approve an advisor’s decision to manage to a different asset allocation than those below, or employ alternative investments (i.e., non-equity or fixed income).

<b>External Managers' Allocation Range Parameters</b>			
Style	Allocation Mix	Target	Available Range
Capital Preservation	Money Market	100%	100%
Balanced	Equity	50%	40-60%
	Fixed Income	50%	40-60%
Growth	Equity	70%	60-80%
	Fixed Income	30%	20-40%

*Investment Objectives:*

- *Capital Preservation*
  - *Seeks preservation of capital by investing in money market funds and short-term cash equivalent fixed income instruments.*
- *Balanced*
  - *Seeks capital appreciation in a balanced public equity and fixed income portfolio.*
- *Growth*
  - *Preserve the purchasing power of assets by investing in a diversified pool of liquid public market securities targeting capital growth for long-term grant-making.*

The external investment advisor is responsible for maintaining the asset allocation range parameters above. The external advisor will inform The Foundation that rebalancing occurred in its quarterly statement. This statement is incorporated in The Foundation report from the Investment Advisor. The Investment Committee will periodically monitor the performance of externally managed funds and alert the Investment Committee if the portfolio is outside of allowable range.

The Foundation will retain the right to terminate the external investment advisor for any reason, including, but not only, for failure to comply with our Investment Policy Statement. Any fund agreement for an externally managed fund shall contain provisions allowing termination of the external investment manager.

In certain circumstances, The Foundation may act as Trustee of a fund, such as a Charitable Remainder Trust. In such cases, the funds are held and invested separately from the main endowment pool as they are not Foundation assets. Every effort will be made to invest this type of fund according to The Foundation’s allowable assets and target asset allocation within the upper and lower limits as outlined in the Asset Classes and Limits, but if the fund cannot meet

the minimum to be in a certain asset class, the Investment Advisor will be given written instructions as to the alternate asset allocation.

### **Certificate of Adoption**

The foregoing amendment to the Investment Policy Statement was approved and adopted by the Board of Directors of The Community Foundation San Luis Obispo County on May 1, 2024.

By:

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Pat Hosegood Martin, Board Secretary

## **Appendix A - Asset Class Definitions**

### Cash/Cash Equivalents

Money market Mutual Funds selected must adhere to the following guidelines:

- Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or higher. Commercial paper, treasury securities with maturity of less than 90 days, certificates of deposit with maturity of less than 90 days, and repurchase agreements are also acceptable investment vehicles for the money market Mutual Funds.
- Any idle cash not invested by the investment managers shall be invested in an interest-bearing cash account.
- Cash balances may also be invested in federally insured bank deposit accounts or similar instruments.

### Fixed Income

Fixed income strategies will employ a variable maturity approach that relies less on interest rate forecasting but shifts the maturity structure in response to changes in the yield curve. Managers and Mutual Funds selected to manage The Foundation's assets must adhere to the following guidelines:

- The core domestic fixed income component (excluding any dedicated high yield allocation) will maintain a minimum credit rating of 'BBB'.
- The international fixed income component may be hedged to avoid fluctuations in currency exchange rates.
- Fixed income investments will generally have short to intermediate durations to minimize interest rate volatility.

### Global Equities

Investment Managers selected to manage The Foundation's assets must adhere to the following guidelines:

- Equity holdings in any one company should not exceed more than 10% of the market value of The Foundation's equity portfolio.
- Allocations for all equities will generally avoid excessive industry or sector concentration.
- The managers should emphasize quality in security selection and diversify to avoid risk of loss.
- The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the managers will be evaluated against their mandated benchmarks and peers on the performance of the total funds under their direct management.
- Allocations to any specific country shall not be excessive relative to a broadly-diversified international equity manager benchmark or peer group. It is expected that the non-US equity portfolio will have no more than 40% in any one country.

- Foreign exchange contracts may be used if the use of such contracts is limited to hedging currency exposure within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

The following types of securities and transactions are not authorized without receiving specific Foundation approval:

- Letter stock and other unregistered securities.
- Investments for the purpose of exercising control management.

### Real Assets

The Foundation may invest in a combination of real asset strategies that include, but are not limited to, Real Estate, Commodities and Natural Resources, and Energy Infrastructure Master Limited Partnerships (MLPs) described below:

- Real Estate: Public and/or private investment in a diversified portfolio of global real estate companies, including Real Estate Investment Trusts or REITs.
- Diversified Commodities and Natural Resources: Investment in a diversified portfolio or index of commodity (or commodity futures) and natural resource investments.
- Energy Infrastructure Master Limited Partnerships (MLPs): Investment in a diversified portfolio of Master Limited Partnerships (MLPs) focusing primarily on energy infrastructure, or pipeline investments.

### Hedged Strategies

The Foundation may invest in a diversified portfolio of Hedge Funds either directly or via a Fund of Hedge Funds approach. Given the unique risks associated with Hedge Funds (e.g. lack of transparency, relative illiquidity, use of leverage, comparably high fees, muted performance in positive market environments), attention shall be paid to ensure that:

- The portfolio is sufficiently diversified across an appropriate number of hedge fund managers and strategies,
- Liquidity of the Hedge Fund allocation is periodically reviewed both at the individual manager and the aggregate hedge fund portfolio levels,
- Leverage is routinely monitored at both the individual manager and the aggregate hedge fund portfolio levels; and
- Ongoing, comprehensive due diligence is performed on each individual hedge fund manager by either the fund of funds manager or the Investment Advisor.

### Sustainable Investing

While not its own asset class, The Foundation may invest in a sustainable investment vehicles consistent with Environmental, Social, and Governance methodologies.

## **Appendix B – CFSLOCO Current Charter**

### **Investment Committee Charter**

The Investment Committee (“Committee”) is responsible for the administration of the investments of The Community Foundation San Luis Obispo County (“Foundation”) and those investments shall collectively be referred to as the Portfolio. The members will discharge their duties solely on behalf of The Foundation’s mission in accordance with its specific terms, under direction of The Foundation’s Board of Directors (“Board”).

### **Responsibilities**

The Committee’s duties consist of investment oversight and administrative duties, including:

- A. Investment Duties
  - a. Understand The Foundation’s investment goals and how these objectives support The Foundation’s mission.
  - b. Adopt, periodically review, and revise an Investment Policy Statement for approval by the Board.
  - c. Select, monitor and replace third-party advisors of the Portfolio, such as an Investment Advisor and other providers of portfolio services.
  - d. Work with the selected Investment Advisor(s) and make recommendations to the Board.
  - e. Monitor the performance of investment funds and Investment Advisors in accordance with the Investment Policy Statement, including performance of Investment Managers.
  - f. Annually review and recommend the spending policy for endowed funds to the Board.
- B. Administrative Duties
  - a. Review all fees incurred by or on behalf of the Portfolio annually.

The Investment Committee members are knowledgeable about community leadership and act as ambassadors for The Foundation. The Foundation Board and Staff will provide the Committee with such information necessary or desirable to fulfill its responsibilities. The Foundation may furnish the Committee with such administrative and other Foundation Staff assistance as the Committee may need to perform its duties.

### **Membership**

The Committee shall be composed of a minimum of five (5) and a maximum of twelve (12) members, and shall include current members of The Foundation Board and community members with appropriate business or investment experience. The Chair of the Committee shall be a Board member. The Board President and The Foundation CEO shall serve as ex-officio members of the Committee.

The Committee may form subcommittees as it deems appropriate. Subcommittees may be formed to address special projects for a limited period or may become standing subcommittees for a particular purpose.

Terms of service shall last no more than two three-year terms for community members. A term is said to start in January of each year. There shall not be a term service limit for Board members. However, once a Committee member terms off the Board, the term of service limit shall begin accruing.

No voting members of the Committee shall receive any compensation for their service. All Committee members must adhere to The Foundation's Conflict of Interest Policy, Confidentiality Policy, and Whistleblower Policy. Any committee member who also serves as an investment advisor/manager must complete an accurate conflict of interest form and recuse themselves from voting on any matter which would financially benefit them or their firm in any way.

### **Meetings**

The Committee shall hold regular quarterly meetings and shall meet more frequently as circumstances require. The Committee shall keep minutes of the meeting and provide quarterly reports to the Board.

A quorum for the transaction of business at any meeting of the committee shall consist of a majority of Committee members. Decisions shall be made by a majority of those present at the meeting.

The Committee also may vote by electronic means, provided all electronic votes must be unanimous among the then active Committee members.

## **Appendix C – Roles and Responsibilities for The Foundation Board of Directors, The Investment Committee, Investment Advisor, Investment Managers, and Foundation Staff**

### **Board of Directors**

The Board of Directors has the following general responsibilities:

- Is responsible for governing the general activities of The Foundation, including direct oversight of the Investment Committee, Investment Advisors, Investment Manager, External Investment Advisors, Custodians and Foundation Staff.
- Bears a fiduciary responsibility to ensure proper oversight of The Foundation and oversees the fiscal management and investment practices of The Foundation.
- Adopting safeguards related to fund management so the funds associated with The Foundation are administered in accordance with all legal and regulatory requirements.
- Shall comply with UPMIFA, all other applicable laws, rules and regulations, as well as best practices of Council on Foundations' National Standards.

### **Investment Committee**

The Investment Committee has the following general responsibilities:

- Recommend to the Board the Investment Policy Statement ("IPS"), to include overarching investment philosophy, investment goals and objectives, roles and responsibilities, eligible investments, portfolio restrictions, asset class and Investment Advisor and Investment Manager performance, risk monitoring, evaluation, and reporting processes.
- Recommend The Foundation's spending policy to the Board.
- Report the performance of the Investment Program to the Board.
- Receive and discuss the Investment Program to ensure compliance with asset allocation policy and ranges, and to review performance and attribution of the Investment Program, its asset classes, and the Investment Advisors and Manager's consistency regarding their respective policies and directives.
- Receive, discuss, and approve investment recommendations made by the Investment Advisor and Foundation Staff which include changes to the asset allocation policy, spending policy, and the IPS.
- Engage the Investment Advisor and Foundation Staff in discussions regarding a review of the economy and financial markets, The Foundation's market outlook, and other topics related to the prudent management of the Investment Program.
- Engage The Foundation Staff in an annual review of the Investment Advisor who will report to the CFO. The Investment Committee will recommend hiring, retaining, or terminating the Investment Advisor in conjunction with recommendations by Foundation Staff through a Request for Proposal process every 5-7 years.
- Receive and discuss the Investment Program's investment risk reports, fee reports, and peer foundation comparison reports.

## **Investment Advisor**

Responsibilities of the Investment Advisors. The Board shall hire the Investment Advisor, upon review and recommendation of the Investment Committee, and shall have the following general responsibilities:

- Rebalance the portfolio consistent with the Investment Committee approved asset allocation policies. Report to and assist The Foundation Staff in performing staff responsibilities to manage and report on the Investment Program.
- On a quarterly basis, provide the CFO and Investment Committee with an economic and capital markets review, market trends, asset class and investment strategy outlooks, and how these have or may impact the Investment Program.
- Annually review the Investment Policy Statement and as needed, recommend changes to The Foundation Staff and Investment Committee for consideration.
- On a quarterly basis, prepare and present the Investment Program reports that monitor compliance with the asset allocation policy and ranges, review the performance and attribution of the Investment Program and its asset classes and Investment Managers' consistency with their respective goals, objectives, policies, and guidelines.
- Assist The Foundation Staff in presenting to the Investment Committee recommendations regarding investment policies and investment performance guidelines for Investment Managers.
- Monitor and report to The Foundation Staff the positioning of the Investment Program's asset allocations relative to their policy targets and bands. Assist The Foundation Staff in reporting rebalancing activities to the Investment Committee.
- Monitor the Investment Program's asset classes and their Investment Managers and provide reports to The Foundation Staff and Investment Committee. Manager reviews should be thorough but concise and include return and risk metrics used to assess and evaluate Investment Managers. The Investment Advisor should provide an independent opinion regarding an Investment Manager's ability to achieve performance expectations per their guidelines.
- Notify The Foundation Staff and Investment Committee of any significant changes within each Investment Manager's organization, including changes in ownership, organizational structure, or professional staffing.
- Assist The Foundation Staff in the development and reporting of the investment risk reports.
- Develop and present the spending policy analysis to CFO for review and concurrence prior to presenting it to the Investment Committee and the Board.
- Provide a review of peer foundations when requested.
- Monitor the liquidity of the Investment Program.
- Comply with all applicable state and federal laws and regulations that involve The Foundation as they pertain to the Investment Advisor's duties, functions, and responsibilities as a fiduciary, including UPMIFA.

- Provide a copy of Form ADV Part 2A and 2B (brochure and brochure supplements, respectively) and Form CRS if applicable. As a registered investment adviser with the Securities and Exchange from ADV Commission, investment advisors are required to provide to their client's documents, that describe in detail, the firm's consulting and advisory services, business practices, senior personnel, fee structures and other related matters.
- Vote proxies on the securities held in the portfolio in accordance with the voting guidelines, manager's fiduciary duties and professional judgement. On request, provide a written report detailing all proxies voted.

### **Role as Access Person per SEC, not an Investment Advisor**

The Investment Advisor shall collect and collate performance information from each of the Fund Managers to provide The Foundation Staff with timely and accurate reports on the performance of the endowed Portfolio and anticipated changes in current investments.

Fees incurred by The Foundation for fund management and overall portfolio management shall be customary and reasonable in all respects, and not excessive relative or market and actual returns.

### **Selection of Investment Advisor**

The Foundation may select and retain an objective, third-party advisor to assist the Investment Committee in managing the endowed Portfolio and with the investment process. The Investment Advisor will be responsible for guiding The Foundation through a disciplined and rigorous investment process to enable The Foundation Board to meet its fiduciary responsibilities.

Criteria used to select the Investment Advisor will include, but not be limited to:

- Shall have at least 10 years of experience as an investment advisor
- Shall reside and work outside of San Luis Obispo County to maintain impartiality.

### **Investment Managers**

Investment Managers are generally selected by the Investment Advisor in consultation with the Investment Committee. Investment Managers perform the following functions:

- Manage the Investment Program's assets in accordance with the investment objectives and guidelines set forth by The Foundation in Trust IPS.
- Provide written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a monthly basis in addition to other information as requested by The Foundation Staff or investment advisor.
- Work with the custody bank and the Investment Advisor to reconcile market values and cash flows as required.
- Communicate with The Foundation Staff and Investment Advisor regarding portfolio management activities, including, but not limited to: investment returns, changes in an

Investment Manager's investment outlook and strategy, shifts in portfolio construction (asset mix, sector emphasis, etc.), portfolio performance and attribution and changes in the investment manager's ownership, organizational structure, or professional staffing (additions and departures).

- Comply with all laws and regulations that pertain to an Investment Manager's duties, functions, and responsibilities as a fiduciary of The Foundation.
- If applicable, annually provide the Investment Advisor and Foundation with a copy of the Investment Manager's form ADV Part 2 (SEC required disclosure document) and proof of Liability and Fiduciary insurance.

### **Selection of Investment Managers for All Funds**

The Investment Advisor will select managers that meet the following minimum criteria:

- Must be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
- Must provide monthly statements and historical quarterly performance using the Performance Presentation Standards as defined by the CFA Institute (formerly the Association for Investment Management and Research – AIMR).
- Must provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
- Must clearly articulate the investment strategy that will be followed and document that the strategy has been adhered to over time.
- Must have no outstanding legal judgments or past judgments.
- It is recognized that alternative investment managers may not comply with all the criteria stated above, but their actions shall be governed by the terms of their offering document.

### **Foundation Staff**

- Manage and use the services of the Investment Advisors, custody bank and other external providers needed to develop, manage, and report on all aspects of the Investment Program
- Oversee the day-to-day management of the Investment Program and manage the programs consistent with its asset allocation, policies, and guidelines as established by the Investment Committee and the Board.
- Demonstrate knowledge of the financial markets and the Investment Program and effectively communicate this information to the Investment Committee and donors.
- Regularly review the IPS with the Investment Committee and, as needed, recommend changes requiring Investment Committee and Board approval.
- Meet with the Investment Program's Investment Advisor and conduct a comprehensive review of performance consistent with Foundation guidelines on an as needed basis. The CFO will keep the Investment Committee informed of these meetings and recommend appropriate courses of action.

- Maintain, review and report to the Investment Committee on the Investment Program’s investment management fees.
- Recommend actions to hire, retain or terminate Custodians.
- Oversee The Foundations Externally Managed Funds and quarterly preparation of a consolidated advisor oversight report for discussion with the Investment Committee.
- Ensure The Foundation remains in compliance with all applicable laws governing the operation of foundation investments, including but not limited to UPMIFA.

## Custodians

The custodian is the financial institution responsible for safeguarding the assets of the Community Foundation’s portfolio(s). The custodian is also responsible for the settlement of the securities bought and sold, collecting dividends and interest from the securities in the portfolio, and administering corporate actions on securities held – such as stock splits and dividends. The custodian also provides monthly and annual reporting and disburses funds for the Foundation’s operating budgeting needs. Some investment advisory firms also provide integrated custodial services, and these may be bundled with advisory services. Given that the Community Foundation will necessarily have multiple custodians across the existing endowed, advisor managed, operating and hedge-fund holdings, all reasonable efforts will be made to confirm the worthiness of the custodian when a new asset pool requires such evaluation.

## Oversight Chart

The table below summarizes the primary roles and responsibilities for investment decision-making and oversight.

<b>Oversight Chart</b>					
<b>Activity</b>	<b>Board</b>	<b>Investment Committee</b>	<b>CEO</b>	<b>CFO</b>	<b>Investment Advisor</b>
Strategic Asset Allocation	Final Approval	Approve / Recommend	Review	Recommend	Recommend
Spending Policy	Final Approval	Approve / Recommend	Review	Recommend	Recommend
Investment Policy Statement	Final Approval	Approve / Recommend	Review	Recommend	Recommend
Advisor (Hiring/Firing)	Final Approval	Approve / Recommend	Review	Recommend	N/A
Investment Managers (Hiring/Firing)	Notification	Approve / Recommend	Review	Recommend	Recommend
Rebalancing	Notification	Notification	Review	Review	Recommend
Custodian (Hiring/Firing)	Advanced Notification	Advanced Notification	Approve	Recommend	Recommend

## Appendix D - Glossary of Investment Terms

### Investment Definitions

- Annualized Return – The compounded average annual return for periods greater than one year.
- Asset – Cash, stocks, bonds, real estate, or other holdings of The Foundation. Generally, assets are invested to provide spendable dollars to be used for grantmaking and operations.
- Asset Allocation – The distribution of a pool of assets among various asset classes including but not limited to domestic and foreign equities, bonds, cash, real estate, or alternative investments.
- Audit – An independent examination of the accounting records and other evidence relating to The Foundation to support the expression of an impartial expert opinion about the reliability of our financial statements.
- Board of Directors or Board – The policymaking and governing body of The Foundation.
- Cash – The most common type of gift made to most nonprofit organizations. Includes cash, checks, and credit card gifts.
- Council on Foundations- A nonprofit membership association for grantmaking foundations and corporations across the United States.
- Custodian – A bank or other financial institution that has custody of stock certificates and other assets of a Mutual Fund, individual, corporation, or institution. Custodians hold assets in safekeeping, collect income on securities in custody, settle transactions, invest cash overnight, handle corporate accounting, and provide accounting reports.
- Diversification – a risk management strategy that creates a mix of various investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in an attempt to limit exposure to any single asset or risk. Can also apply to improving the strength of the organization by having more diversity among the people serving on the board and in various capacities in the organization-at-large, and by attracting gifts from a diverse donor-base.
- Dividend – A distribution of cash by a corporation to its stockholders.
- Donor – The individual or organization, company, business, or private foundation.
- Due Diligence – Relating to the practices one applies to reviewing grant requests prior to approving them. It generally includes establishing the charitable status of the grantee, the charitable purpose of the grant, and the financial and organizational capacity of the organization to undertake the proposed activities, as well as the determination that the donor does not incur any benefits in exchange for their grant.
- Endowment – Assets owned and invested by The Foundation from which generally only the income can be used for operations and/or grants. The principal number of gifts and bequests that are accepted are subject to a requirement that the principal be maintained intact and invested to create a source of income. Donors may require that the principal

remain intact in perpetuity, or for a defined period or until sufficient assets have been accumulated to achieve a designated purpose.

- Environmental, social and corporate governance (ESG) -The three central factors in measuring the sustainability and ethical impact of an investment in a company or business. Investors who employ this strategy examine criteria within these three categories to analyze stocks and future financial performance of companies.
- EFT: Electronic Funds Transfer
- ETF: Exchange Traded Fund: a collection of securities that can be bought and sold like a stock on a stock exchange.
- Form ADV: the uniform form used by investment advisers to register with both the Securities and Exchange Commission (SEC) and state securities authorities.
- Equities – Also called equity securities or corporate stocks. An instrument that signifies an ownership position, or equity, in a corporation, and represents a claim on its proportionate share in the corporation's assets and profits. An equity holder's claim is subordinated to creditor's claims, and the equity holder will only enjoy distributions from earnings after these higher priority claims are satisfied.
- External Advisor: Any advisor outside of The Foundation's Primary Investment Advisor.
- Fiduciary Duty – The legal responsibility for investing money or acting wisely on behalf of a beneficiary. More broadly, for foundation boards such responsibility must be legally exercised on behalf of the donors and the governing documents of The Foundation.
- Fund – An entity established for the purpose of accounting for resources used for specific activities or objectives in accordance with special regulations, restrictions, or limitations. Community foundation assets are held in many named funds established by donors or The Foundation for specific unrestricted purposes.
- Hedging – Hedging is a risk management strategy employed to offset losses in investments by taking an opposite position in a related asset. There is a risk-reward tradeoff inherent in hedging, while it reduces potential risk, it also chips away at potential gains. Selling short, put options, and futures transactions may be used for hedging purposes.
- Investment Advisor – A counselor or consultant whose principal business is advising, analyzing or supervising investments managed by others. This differs from an investment manager who is responsible for the investments in a portfolio.
- Investment Program – the Portfolio of The Foundation as managed per the IPS.
- Investment Manager – An advisor who manages the investments of others. In general, a manager with more than \$100 million must register with the Securities and Exchanges Commission (SEC).
- Liquidity – Refers to the ease and quickness of converting assets to cash.
- Mission-Related Investment (MRI) – An investment made by foundations and other mission-based organizations to further their philanthropic goals. Mission investments cover two distinct categories of investments: Market-rate mission investments, also known as "mission-related investments," are part of a foundation's endowment and have

a positive social or environmental impact while contributing to The Foundation's long-term financial stability and growth. Below-market mission investments, also known as "MRI" are designed to achieve specific program objectives while they may earn a below-market financial return.

- Mutual Fund – A fund managed by an investment company that raises money from individuals and invests it in stocks, bonds, options, commodities, or money market securities. An investment in a mutual fund is represented by shares or units. The value of the units depends on the value of assets owned by the mutual fund, less expenses incurred by the fund.
- Net of Fee – The rate of return reported on a portfolio after the removal of a money manager's, investment manager's or advisor's fee.
- Non-endowed Fund – Monies are received and distributed with 100% of the fund being potentially spendable. The fund does not operate under The Foundation's spending policy for endowed funds.
- Realized Gains/Losses – Increases/decreases attributed to the sale of investments.
- Return, Rate of – The rate of return on an asset is a measure of investment performance and should be determined on a total-return basis, i.e., including realized and unrealized changes in market value in addition to earned income (i.e., dividend and interest income). Managers may report returns before or after management advisory fees, but returns are always reported after brokerage and trading costs.
- Socially Responsible Investing (SRI) – Also referred to as Ethical Investing, Social Investing or Green Investing - This is the practice of aligning a foundation's investment policies with its mission. This may include making program-related investments and refraining from investing in corporations with products or policies inconsistent with foundation's values. (See ESG, above)
- Spending Policy – A policy that determines what percentage of a group of assets, such as an endowment, should be spent.
- Total Return – Measures the changes in portfolio value plus dividend or interest income plus realized capital gains or losses. Total return is expressed as a percentage of initial capital value, adjusted for net contributions or withdrawals.
- UPMIFA - The Uniform Prudent Management of Institutional Funds Act which provides guidance and authority to charitable organizations concerning the prudent management and investment of charitable funds and for endowment spending.
- Unrealized Gains/Losses – Increases/decreases in investments attributable to the fluctuations in value of the investments from one time period to another.
- Variance Power – A distinguishing characteristic of community foundations, the variance power permits the community foundation's governing body to redirect resources in funds if it determines that the donor's restriction is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.