

**VENTURA COUNTY COMMUNITY FOUNDATION  
INVESTMENT POLICY**



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## **A. INTRODUCTION**

This Investment Policy Statement (“Policy”) governs the investment management of Ventura County Community Foundation’s (“Foundation” or “VCCF”) investment portfolios, which includes the Long-Term Portfolio, Intermediate-Term Portfolio and Short-Term Portfolio. The purpose of this Policy is to establish a clear understanding of the investment objectives for each portfolio and the investment philosophy of VCCF. It is anticipated that this Policy will be reviewed and amended as needed at least annually by the Investment Committee (“Committee”) with the approval of the Board of Directors (“Board”). Both the Committee and investment consultant are expected to propose revisions in the guidelines at any time the existing guidelines would impede meeting VCCF’s investment objectives.

## **B. RESPONSIBILITIES**

### **Board of Directors**

The Board of Directors has the ultimate fiduciary responsibility for investment of VCCF’s assets. The Board must ensure that appropriate policies governing the management of investments are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves the Investment Policy Statement and delegates responsibility to the Investment Committee and investment consultant for implementation and ongoing monitoring. Any changes to the Investment Policy Statement must be approved by the Board. At least annually the Board will receive and review a performance report from the Committee.

### **Investment Committee**

The Board has authorized the Investment Committee to provide oversight of the portfolios. The Committee is responsible for adopting and implementing the provisions of this Policy. On an ongoing basis the Committee will:

- Establish the investment portfolio structure that will be offered to donors both in terms of the number of portfolios and the risk level of each portfolio.
- Establish the investment strategy, asset allocation targets, permitted ranges and re-balancing strategy for each portfolio.
- Retain and terminate investment managers as necessary in accordance with each portfolio’s strategic asset allocation as set forth in this Policy.
- Establish appropriate benchmarks for each portfolio, asset class and investment manager.
- Monitor investment performance of each portfolio and each manager against benchmarks using reports prepared by the investment consultant.
- Monitor the performance and expenses of custodians and the investment consultant, and overall expenses of each portfolio.
- Maintaining sufficient knowledge about the portfolios and VCCF’s investment managers to be reasonably assured of their compliance with this Policy.
- Review meeting agendas and disclose any actual or potential conflicts of interest at the start of the meeting.
- Review this Policy on a regular basis, no less than annually, and recommend changes as necessary.

## **Foundation Staff**

The Chief Financial Officer (CFO) has daily responsibility for administration of the portfolios and will consult with the Committee and the investment consultant on matters relating to the investment of the portfolios. On an ongoing basis the CFO will:

- Serve as primary liaison to VCCF's investment managers, investment consultant and custodian.
- Assist fund advisors in selecting an appropriate portfolio allocation that is aligned with the fund advisor's charitable goals and time horizon
- Distribute investment performance results to fund advisors and key stakeholders.

## **Investment Consultant**

The investment consultant is responsible for assisting the Committee and CFO in all aspects of managing and overseeing the investment portfolios. The consultant is the primary source of investment education and investment manager due diligence and recommendations. On an ongoing basis the investment consultant will:

- Actively provide advice and recommendations regarding asset allocation strategy, manager selection, rebalancing, market conditions and any other matters relevant to the return and risk profile of VCCF's portfolios.
- Meet with the Committee quarterly, and more frequently as needed.
- Maintain an inclusive process for sourcing, evaluating and recommending investment managers across race, ethnicity and gender; and report annually to VCCF the number of diverse managers evaluated, recommended and hired across consultant's client base.
- Monitor each investment manager for adherence to this policy as well as to the manager's stated investment style. All significant changes are to be reported to VCCF and should be accompanied by a recommendation.
- Meet with each of VCCF's active investment managers at least once per year.
- Monitor and report investment performance results for each portfolio, asset class and manager against specified benchmarks within 30 days following quarter-end.
- Assist the Committee and Foundation staff with their responsibilities.
- Supply the Committee with reports or other information as reasonably requested.
- Monitor this policy and actively recommend changes as needed.

## **Investment Managers**

Investment managers are expected to follow the prudent investor guidelines that are widely used in the investment management industry. These include, but are not limited to, fiduciary standards described in the Uniform Prudent Investor Act (UPIA), the Uniformed Prudent Management of Institutional Funds Act (UPMIFA) and the Global Investment Performance Standards (GIPS) that are promulgated by the CFA Institute. As fiduciaries, all investment managers are expected to uphold the highest ethical standards and to carry out their investment responsibilities in order to promote the best interests of VCCF. Specific duties include:

- Immediately report any findings against the firm or its principals, either by the SEC or any other regulatory authority. In addition, any lawsuits brought against the firm or its principals related to the manager's business activities must be reported immediately to VCCF.

- Prepare quarterly written statements, including actions taken in the portfolio and expected changes in the portfolio.
- For managers of commingled funds, provide their proxy voting record to VCCF no less than annually. Separate account managers should vote all proxies to increase shareholder value unless directed by VCCF to do otherwise.
- Attend meetings with the investment consultant, Committee and Foundation staff as needed.
- Immediately communicate all pertinent changes in the manager’s firm to the investment consultant and to VCCF. This includes, but is not limited to:
  - Changes in personnel involved in VCCF’s relationship
  - Changes in ownership
  - Changes in senior investment professionals’ responsibilities
  - Changes in investment style or process
- Adhere to the investment strategy or style for which the manager was selected.
- Execute all transactions in the best interests of the client. This usually involves obtaining the best net realized price for a purchase or a sale. It also includes using commissions to obtain research or other services that are expected to enhance both the investment process and the returns.

The requirements listed above apply to all VCCF managers. Appendix B of this document contains additional restrictions, organized by asset class, which apply only to separate account managers as commingled vehicles are not governed by VCCF’s policy but by their prospectus or offering document. Separate account managers are responsible for immediately reporting in writing any violations of the guidelines and restrictions as set forth in Appendix B.

### **C. FIDUCIARY DUTY**

In seeking to attain the investment objectives set forth in this Policy, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires fiduciaries to apply the standard of prudence in investment decision making, stating “Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the institutional fund’s Portfolio...” All investment actions and decisions must be based solely on the interest of VCCF. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Statement, the UPMIFA states that the Committee is under a duty to VCCF to manage the funds as a prudent investor would, in light of the purposes, scope, objectives and other relevant portfolio circumstances. This standard requires the exercise of reasonable care, skill and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to VCCF. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of VCCF are better served without diversifying.

In addition, the Committee must conform to fundamental fiduciary duties of loyalty and impartiality. This requires the Committee to act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

## D. INVESTMENT OBJECTIVES

### Short-Term Portfolio

VCCF offers a Short-Term Portfolio for funds or that portion of a fund that will be distributed in **less than three years**. The Short-Term Portfolio is intended to be invested in a manner consistent with the objectives of (i) maintaining the principal value of the invested assets, (ii) minimizing the potential that the principal value of assets will be impaired, and (iii) providing a liquid source of funds for distributions.

Due to the objective of preserving principal value of assets, the Short-Term Portfolio is expected to be invested exclusively in money market instruments and short-term fixed income securities such that the average credit quality of the portfolio is “A” or higher and the average duration of the portfolio is less than 24 months. Despite the intention to maintain principal value, the Committee and the Board acknowledge that no securities with affiliated credit and/or interest rate risk are completely free of risk and principal losses may occur over short periods.

### Intermediate Portfolio

The Intermediate Portfolio is designed for funds with an investment horizon of *three to six years*. The portfolio’s investment objective is to seek a real rate of return that is commensurate with a reduced level of risk as compared to the Long-Term Portfolio. Given the shorter time horizon, the Intermediate Portfolio will be invested in a manner consistent with the objectives of (i) mitigating volatility while accepting some level market risk, and (ii) generate an annualized rate of return, net of fees and expenses, that exceeds the portfolio’s policy benchmark.

### Long-Term Portfolio

The Long-Term Portfolio is designed for funds with an investment horizon of **seven or more years**. The primary investment objective of the Long-Term Portfolio is to achieve an annualized total return, net of fees and expenses, that is equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and investment expenses, such that purchasing power is maintained over time. The assets are to be managed in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in annual distributions. The primary objective of the portfolio may be expressed as:

**Total Return greater than Consumer Price Index + Spending Policy + Investment Expenses**

Given that this benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated over 10 to 20 years. A secondary objective is to achieve a total return in excess of the Policy Benchmark comprised of each strategic asset category benchmark weighted by its target allocation. The Policy Benchmark is defined in Appendix A of this Policy.

## E. SPENDING POLICY FOR ENDOWED FUNDS

VCCF has adopted investment and spending policies for endowment assets that are consistent with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). These policies work together to attempt to provide a predictable stream of funding to programs supported by endowment funds while seeking to maintain the purchasing power of the endowment assets. Both policies are reviewed and approved annually by the Board. The current spending policy is defined in Appendix D of this Policy.

## **F. ASSET ALLOCATION**

The Long-Term Portfolio is expected to endure into perpetuity and asset allocation will likely be the key determinant of the portfolio's returns over the long-term. The purpose of establishing an asset allocation for the portfolio is to construct a target or normal set of investments, based on long-term return, risk and correlation assumptions that properly balance the need for liquidity, preservation of purchasing power and risk tolerance. The Committee, with appropriate input and assistance from the investment consultant, shall periodically examine the asset allocation and consider adjustments as may be appropriate. Changes to the asset allocation will be reviewed by the Committee every 18 to 24 months and approved by the Board. The current asset allocation, including targets and acceptable ranges, is outlined in Appendix A.

In addition to being diversified across asset classes, VCCF will seek to be diversified within each asset class. This will provide reasonable assurance that the investment performance of any single security, issuer or class of securities, or active investment manager will not have a disproportionate impact on total performance.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Portfolio, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. To achieve these goals, the asset allocation will be set pursuant to the Target Allocation and within the Allowable Ranges outlined in Appendix A.

## **G. REBALANCING**

The Portfolio's asset allocation will be monitored regularly relative to the Target Allocation. In maintaining the Target Allocations, VCCF will strive to remain within the Allowable Ranges, as this is essential for maintaining the risk profile adopted by the Committee. The actual asset allocation will be compared to these ranges on a monthly basis. In the event that the allocation to a particular asset class falls outside of acceptable range, the pool will be re-balanced so that all asset classes are within their permitted allocations. The Portfolio will be periodically re-balanced first from net cash flows in and out of the portfolio and then by liquidations from over-funded managers at the recommendation of the investment consultant. It is recognized that adjustments may be constrained by practical limits with respect to liquidity and transaction costs, but efforts will be made to rebalance as appropriate.

## **H. MONITORING OF OBJECTIVES AND RESULTS**

VCCF seeks to outperform its Policy Benchmark (see Appendix A) over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the Committee recognizes that over various time periods, the Portfolio may produce significant deviations relative to the Policy Benchmark. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes, at least 5 years). All objectives and policies are in effect until modified by the Committee. They will be reviewed at least annually at a meeting of the Committee for their continued appropriateness.

The Portfolio will be monitored on a continual basis for consistency of each investment manager's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions and market volatility. Each manager will be compared to the asset class benchmark listed in Appendix A along with a market index that more closely reflects the manager's investment style where appropriate. Furthermore, managers will be evaluated based on the volatility of their results compared to the benchmark and to an appropriate universe of their peers.

Portfolio results will be reviewed by the Investment Committee on a quarterly basis, and evaluated over rolling periods of at least 3-to-5 years or a full market cycle. The time horizon for evaluating managers will vary and is a function of the interaction between a manager's investment philosophy and market conditions at different points in time. VCCF does not evaluate its managers purely on the basis of performance as issues such as stability of personnel, investment discipline and the quality of a manager's ongoing security selection decisions are also among the factors to be considered.

The Committee will regularly review investment managers in order to confirm that the factors underlying performance expectations remain in place.

## **I. INVESTMENT GUIDELINES**

VCCF has adopted the specific investment guidelines and restrictions for each asset class as listed in Appendices B and C. These guidelines apply to each portfolio to the extent that a particular asset class is included in that portfolio. Assets managed in commingled vehicles are subject to the investment guidelines outlined in the prospectus or other governing agreements. Since, in these cases, VCCF cannot impose its own guidelines, the Committee will, assisted by the investment consultant, determine beforehand whether the guidelines in the offering document are in accordance with the broad guidelines set out below and are generally acceptable and suitable for the given mandate.

### **Investment Manager Autonomy**

Decisions as to individual security selection, security size and quality, number of industries and holdings, current income level, turnover and the other tools employed by active investment managers are left to the broad manager discretion, subject to the usual standards of fiduciary prudence and the limits described below and/or in individual investment manager guidelines.

### **Diversification**

Diversification will be achieved at the total Portfolio level and not necessarily at the investment manager level. To produce overall diversification, investment managers may be selected to employ different management philosophies which together achieve the desired degree of diversification. Investment manager portfolios will be monitored for adherence to these philosophies.

## **J. DIVERSITY AND INCLUSION**

VCCF values diversity and seeks to ensure that the investment process for sourcing, evaluating and recommending talented investment managers is inclusive across race, ethnicity and gender. When selecting an investment consultant, VCCF will consider the consultant's internal diversity policies and practices, as well as the consultant's practices for ensuring an inclusive manager selection process. The investment consultant will be required to report annually to VCCF the number of diverse managers evaluated, recommended and hired across consultant's client base. For reporting purposes, a diverse manager is defined as a minority- or women-owned business enterprise (MWBE) with 51% or more ownership by diverse members. This policy does not preclude inclusion of other groups such as disabled, veterans or LBGT.

## **K. PROXY VOTING**

VCCF recognizes that it has a responsibility to evaluate corporate governance factors with respect to the companies in which we have voting rights, and to maximize the long-term value of the charitable capital entrusted to the Foundation by donors and for the benefit of the community. We also recognize that there

are practical limits to what VCCF can manage given its size. For this reason, the voting of proxies is delegated to each investment manager with the expectation that proxies are voted in a manner that enhances long-term value without compromising sustainable growth, inclusive economies and healthy communities.

As the availability and integration of corporate ESG (environmental, social and governance) data improves and becomes more mainstream, voting on ESG proposals will be increasingly important. Financially material ESG issues are likely to be important drivers of shareholder value, while VCCF's voting record on social and environmental issues may be important to VCCF's work and reputation. For these reasons, VCCF expects managers to carefully consider and integrate ESG data, as appropriate, into voting decisions, and to not adopt voting policies that simply vote with management.

## Appendix A - Target Asset Allocation & Portfolio Benchmarks

### Long-Term Portfolio

This portfolio has a broad target allocation of 50% equity, 20% fixed income and 30% alternative investments. It is designed for endowed funds and funds with a long-term spending horizon of seven or more years, and is generally appropriate for funds intended to be fully expended over a donor's lifetime.

Asset Class	Target	Min.	Max.	Benchmark
U.S. Equity	25.0%	20.0%	40.0%	S&P 500
Non-U.S. Equity	20.0%	10.0%	30.0%	MSCI EAFE
Private Equity <sup>1</sup>	20.0%	0.0%	25.0%	S&P 500 + 500 bps
Fixed Income	20.0%	10.0%	40.0%	Barclays Cap U.S. Aggregate
Hedge Funds	10.0%	0.0%	15.0%	60% MSCI ACWI + 40% Barclays Cap U.S. Aggregate
Liquid Real Assets	5.0%	0.0%	10.0%	50% Bloomberg Commodity + 50% NCREIF Property Index <sup>2</sup>

### Intermediate Portfolio Policy Benchmark:

This portfolio has a target allocation of 40% equity, 50% fixed income and 5% real assets. It is designed for funds with a spending horizon of three to six years.

U.S. Equity	25.0%	15.0%	35%	Russell 3000
Non-U.S. Equity	15.0%	5.0%	20.0%	MSCI ACWI Ex. USA
Fixed Income	50.0%	30.0%	70.0%	Barclay's Aggregate
Real Assets	5.0%	0.0%	7.5%	Morningstar U.S. Real Assets
Liquid Alternatives	5.0%	0.0%	7.5%	60% MSCI ACWI/40% Barclays Global Agg

### Short-Term Portfolio

This portfolio has a target allocation of 100% short-term fixed income securities. It is designed for funds with a spending horizon of three years or less. It is generally appropriate for short-term reserves, pass-through, or that portion of a fund that will be distributed within three years.

<u>Asset Class</u>	<u>Target</u>	<u>Min.</u>	<u>Max.</u>	<u>Benchmark</u>
Money Market Funds	50%	50.0%	100.0%	U.S. Treasury Bills
Short Term Bonds	50.0%	0.0%	50.0%	Citigroup Gov't/Credit 1-3 Yrs.

<sup>1</sup> Assets that have not been committed to or called by private equity managers will be allocated to the publicly traded equity portfolio based on the strategic weights to those classes.

<sup>2</sup> Please note that the NCREIF Property Index is available quarterly and with a considerable time delay. Therefore, estimates will be used for each month which will then be changed to actual figures once they are released.

## Appendix B - Asset Class Guidelines & Restrictions

VCCF has adopted the following guidelines and restrictions for each asset class as listed in **Appendix A**. Therefore, the descriptions below apply to each pool to the extent that a particular asset class is included in that pool.

Please note that the guidelines/restrictions listed below do not apply to investments in commingled vehicles as commingled vehicles are not governed by VCCF's policy but by their prospectus or offering document. However, VCCF will generally seek to use commingled vehicles that largely comply with these restrictions and the investment consultant is responsible for noting situations in which a commingled fund is not in compliance with these guidelines.

### 1. Domestic Equity (Large/Mid/Small Capitalization)

- The domestic equity portfolio will be diversified according to economic sector, industry, number of holdings and other investment characteristics. However, it is recognized that any actively managed portfolio will not be as diversified as the market. To produce overall diversification, equity managers will be selected to employ different management strategies, which together achieve the desired degree of diversification.
- Domestic equity managers are permitted to hold up to 10% of their portfolio in American Depository Receipts ("ADRs") or foreign domiciled companies whose equity securities are traded in U.S. markets.
- No more than 7% at cost or 10% at market of a manager's portfolio may be held in the securities of a single issuer.
- VCCF does not apply strict rules to define small, mid or large capitalization stocks. However, it is expected that the weighted average market capitalization of each managers' portfolio will be within 25% of their primary market benchmark.
- Short selling of securities is prohibited.
- Derivative instruments such as financial futures and options may not be used without the prior approval of VCCF.
- A manager may only deviate from these guidelines with the advance permission of VCCF.

### 2. International Equity (Developed and Emerging Markets)

- The following definitions should be used to distinguish between developed and emerging markets securities:
  - ***International Developed Equity***: Listed equity securities traded on developed non-U.S. markets. Developed markets are defined as those included in MSCI's EAFE Index plus Canada.
  - ***Emerging Markets Equity***: Listed equity securities traded on emerging non-U.S. markets. Emerging markets are defined as any market not included in MSCI EAFE Index plus Canada.

- The portfolio will be diversified according to economic sector, industry, number of holdings and other investment characteristics. However, it is recognized that any actively managed portfolio will not be as diversified as the market. To produce overall diversification, equity managers will be selected to employ different management strategies, which together achieve the desired degree of diversification.
- For managers who are hired to invest in developed markets, securities within the portfolio must be held in a minimum of three countries at all times with no more than 30 percent (30%) of the portfolio to be held in emerging markets countries. For managers hired to invest in emerging markets, securities within the portfolio must be held in a minimum of three countries at all times.
- No more than 7% at cost or 10% at market of the portfolio may be held in the securities of a single issuer.
- Short selling of securities is prohibited.
- Currency exposure may be hedged back to the U.S. dollar. The decision to hedge is left to the manager's discretion.

### **3. Alternative Investments**

In order to enhance portfolio results, VCCF may elect to invest in alternative investment strategies such as hedge funds, real estate, real assets and private equity. These investments are made with the intention of raising portfolio returns and/or lowering total volatility. At present, all of these investments are made via limited partnerships and commingled funds. Therefore, restrictions are established by the offering documents for each investment. Guidelines and performance objectives for hedge funds as group are defined in Appendix C. These guidelines will be subject to ongoing review and modification as VCCF's hedge fund strategy evolves.

### **4. U.S. Fixed Income**

- The duration of the portfolio should be within 25% of the duration of the manager's market benchmark.
- The portfolio may invest in the following classes of fixed income securities:
  - Bonds or notes issued by the U.S. Government or a U.S. Government Agency backed by the full faith and credit of the U.S. Government
  - Mortgage-backed securities
  - Corporate bonds issued in the U.S. and denominated in U.S. dollars
  - Asset-backed securities
  - Non-U.S. bonds or notes issued by either foreign governments or corporations, subject to the limitations noted below
- Investment grade bond managers are expected to maintain an average quality rating for their portfolio that does not fall below an S&P rating of AA-. High yield bond managers are expected to maintain an average quality rating for their portfolio that does not fall below an S&P rating of B-. For the purpose of calculating average quality ratings, securities issued or fully backed by the full faith and credit of the U.S. Government shall be considered AAA.
- For investment grade managers, up to 20% of the portfolio's duration weight may be held in below investment grade securities.

- Up to 25% of the portfolio's duration weight may be held in the securities of foreign issuers. It is expected that the preponderance of the currency exposure associated with these holdings will be hedged.
- No more than 5% at market of the portfolio may be held in the securities of a single corporate issuer. This restriction does not apply to securities issued by the U.S. Government or a U.S. Government Agency backed by the full faith and credit of the U.S. Government.
- Derivative instruments may be utilized by the manager in order to obtain more efficient exposure to a specific type of security. However, at no time may derivative instruments be used to leverage the portfolio. In addition, it is expected that a manager will have thoroughly tested the behavior of the derivative instrument under a variety of market conditions before purchasing the instrument for the portfolio.

## **5. Global Fixed Income**

- The duration of the portfolio should be within 25% of the duration of the manager's market benchmark.
- The portfolio may invest in the following classes of fixed income securities issued by U.S. or non-U.S. entities:
  - Government bonds or notes
  - Mortgage-backed securities
  - Corporate bonds issued in the U.S. and denominated in U.S. dollars
  - Asset-backed securities
- The manager is expected to maintain a weighted average quality rating for the portfolio that does not fall below an S&P rating of AA-. For the purpose of calculating average quality ratings, securities issued or fully backed by the full faith and credit of the U.S. Government shall be considered AAA.
- Up to 20% of the portfolio's duration weight may be held in below investment grade securities.
- No more than 5% at market of the portfolio may be held in the securities of a single corporate issuer.
- Derivative instruments may be utilized by the manager in order to obtain more efficient exposure to a specific type of security. However, at no time may derivative instruments be used to leverage the portfolio. In addition, it is expected that a manager will have thoroughly tested the behavior of the derivative instrument under a variety of market conditions before purchasing the instrument for the portfolio.

## **6. Cash and Equivalents**

- A key objective for cash investments is to maintain price stability at all times although this is not guaranteed.
- The weighted average maturity of the money market securities segment of the portfolio will generally be less than or equal to 90 days. Certificates of Deposit, if utilized, will be purchased through the CDARS program using a laddered approach to maturities which could involve the use

of longer maturities although this portfolio will be structured to maintain adequate liquidity for the pool as a whole.

- Within the money market securities segment, the portfolio will generally invest its assets in money market securities that are in the highest ratings categories for short term instruments. Furthermore, the fund may invest in the following:
  - Obligations of the U.S. Government (including its agencies and instrumentalities)
  - Short-term corporate debt securities of domestic and foreign corporations
  - Obligations of domestic and foreign commercial banks, savings banks, and savings and loan associations
  - Commercial paper

## Appendix C – Hedge Fund Portfolio Guidelines

The purpose of these guidelines is to define performance objectives and to allow risk within the hedge fund portfolio to be monitored and controlled. These guidelines will be subject to ongoing review and modification as VCCF’s strategy evolves.

### Portfolio Goals

The hedge fund portfolio seeks to earn a competitive long-term return with volatility that is below that of a traditional equity/fixed income portfolio whose mix would be attractive for a long-time horizon investor. At this time, the hedge fund portfolio will be structured to emphasize this goal as opposed to those that emphasizes low volatility or low correlation to markets.

### Investment Objectives

The long-term objectives of the hedge fund portfolio are as follows – please note that all comparisons will be based on results that are net of fees:

- The overall objectives are, in order of importance: (1) return generation (2) moderation of portfolio volatility and (3) capital preservation.
- The primary return objective is to earn annualized returns that exceed a 60/40 market proxy where equities (60%) are measured using the MSCI All Country World Index and fixed income (40%) is measured using the Barclays Capital U.S. Aggregate Index. This is to be measured over three to five year periods.
- Volatility of the hedge fund portfolio is generally expected to be no more than that of the same 60/40 market proxy per annum measured over rolling 36 month periods.
- Beta to the MSCI All Country World Index is generally expected to be no more than 0.5 measured over rolling 36 month periods.
- As a secondary objective, the hedge fund portfolio’s results will also be compared to the HFRI Fund of Funds Index plus 1% in order to measure results relative to the aggregate hedge fund industry.

### Guidelines

1. The portfolio will be well diversified by manager and strategy and will initially utilize the targets and permitted ranges listed on page two. If the portfolio’s exposure falls outside of the permitted range at any time, it will be rebalanced no later than the next liquidity date for the managers within that segment of the portfolio. Furthermore, each segment of the portfolio will be compared to the index listed in the table below.

Category	Target	Minimum	Maximum	Benchmark
Long/ Short Equity	50.0%	43.0%	57.0%	HFRI Equity Hedge Index
Credit and Structured Credit	25.0%	18.0%	32.0%	HFRI Distressed/Restructuring Index
Multi-Strategy	10.0%	5.0%	15.0%	HFRI Multi-Strategy Index

Relative Value	15.0%	10.0%	20.0%	Blended Index: 50% HFRI Macro/50% HFRI Event Driven
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- a. Equity Long/Short consists of global, regional and sector focused long/short strategies
  - b. Credit and Structured Credit consists of long/short strategies that span a broad array of sectors and quality with an emphasis on the fixed income markets
  - c. Multi-Strategy includes event driven, distressed, value equity and risk arbitrage strategies
  - d. Opportunistic includes macro and opportunistic value with investments ranging across the capital structure and/ or allocations that are primarily driven by top-down economic or market analysis
2. No investment shall represent more than 10% of the hedge fund portfolio. If a manager's weight exceeds this level, rebalancing will take place no later than the next possible liquidity date for that firm.
  3. Hedge fund managers will provide liquidity on no less than an annual basis and at least one quarter of the assets will be available on a semi-annual or more frequent basis. In addition, no more than one-third of the hedge fund assets can be locked up at any given time. VCCF will elect to exclude side-pocket investments when this option exists.
  4. Market risk will be monitored on a quarterly basis by reviewing net exposure to equities and credit across the hedge fund portfolio.

## Appendix D – Endowment Spending Policy

The purpose of the spending policy is to calculate the amount of money annually distributed from the foundation's various endowment funds, for grantmaking and administration. The primary objectives of the spending policy are to balance the interests of current and future beneficiaries by not over spending in the short-term or over accumulating in the long-term, and maintain the purchasing power of distributions over time by growing the corpus of each endowment fund to pace long-term inflation.

VCCF's spending and investment policies work in tandem to achieve these objectives. The investment policy establishes an achievable return objective through a diversified investment strategy. Over long periods of time (7+ years), the foundation's spending rate plus that of inflation should be in alignment with the average annual total return achieved through investment earnings. In other words, by distributing an amount that is equal to investment earnings less inflation, the Board seeks to preserve purchasing power of future distributions by growing each endowed fund at the rate of inflation. Mathematically, this is represented by the following hypothetical formula:

$$5\% \text{ spending} + 2\% \text{ inflation} = 7\% \text{ net investment return objective}$$

A secondary objective is to achieve a reasonable degree of stability in payout for annual distributions to grantees. Predictability of distributions allows recipients, including VCCF, to more accurately budget future income. Predictability also helps to insulate the foundation's investment managers from pressure to generate undo short term liquidity, which allows them to focus on achieving the best total return over the long term. The foundation utilizes a smoothing formula to help achieve stable and predictable year-over-year distributions.

In determining the amount to appropriate for spending, or accumulation, the Board shall consider, if relevant, all of the following factors:

- The duration and preservation of the endowment fund,
- The purposes of VCCF and the fund,
- General economic conditions,
- Effects of inflation and deflation,
- Expected total return from income and appreciation,
- VCCF's other resources, and
- VCCF's investment policy.

In California, UPMIFA includes the provision that an appropriation of greater than 7% of the average fair market value averaged over the past three years is presumptively imprudent.

### Spending Rate & Smoothing Formula

The current spending rate is **5%** (or less for underwater funds based on the schedule below). This spending rate is applied to the trailing **16-quarter** average market value for each endowment fund for the period ending **June 30** of the prior fiscal year.

Additionally, a support fee based on the market value for each endowment fund is assessed semi-annually in December (based on September 30 value) and June (based on March 31 value). The support fee schedule is attached to this policy document.

Where a fund has not been in existence for 16 quarters, the actual number of quarters that the fund has been in existence will be used. All new endowment funds must be invested for four full quarters before any distributions are made. Endowment funds designated to a specific organization may use the quarter-end date of June 30 or December 31 if it is better aligned with the organization’s fiscal year or budgeting cycle.

The spending policy will be applied to both donor restricted and board designated (quasi) endowment funds. It does not apply to endowment funds with specific donor restrictions as to expenditure where the gift instrument defines a specific spending formula.

VCCF will maintain a record of the historic gift value of each donor restricted endowment fund. This includes the terms of any foundation solicitation from which a donor restricted fund resulted. Historic gift value means a) the fair value in dollars of an endowment fund at the time it first became an endowment fund, b) plus the fair value in dollars of each subsequent donation to the fund at the time it is made, c) plus accumulations to the endowment fund if specifically directed by the donor’s gift instrument.

**Carryovers**

Some endowment funds may not be able to fully grant the annual payout. For example, a fund with a very narrow purpose, or when the grantee wishes to defer payment. In these cases, VCCF will allow a fund to carryover one year of unused payout as long as the fair market value of the fund exceeds its historical gift value by the spending rate plus an annual inflation factor, and the carryover amount plus the current payout amount will not cause the fund to fall below historical gift value. If the combined carryover plus current year spending would cause the fund to go underwater, then the carryover amount will be eliminated and not carried forward to any future year. Exceptions to the policy must be reviewed and approved by the Board.

**Underwater Funds**

Endowed funds that are below their historic gift value (“underwater”) will experience a reduction in payout based on the schedule below. The reduced payout is intended to allow for recovery of the historic gift value over a reasonable period of time, while not completely eliminating payout in support of charitable programs.

<b>Underwater Amount</b>	<b>Reduction in Payout</b>	<b>Adjusted Spending Rate</b>
Less than 5%	No reduction	5.00%
5% to less than 10%	25% reduction	3.75%
10% to less than 15%	33% reduction	3.35%
15% or more	50% reduction	2.50%

## **Board Approval**

This Investment Policy Statement has been reviewed and adopted by the Board on 03/23/2020.