



SADDLEBACK COLLEGE FOUNDATION

INVESTMENT POLICY STATEMENT

Approved by the Board of Directors on February 27, 2020

TABLE OF CONTENTS

INTRODUCTION 3
Background..... 3
Purpose 3

DUTIES AND RESPONSIBILITIES 3
Finance and Investment Committee..... **Error! Bookmark not defined.**
Investment Consultant..... 4
Investment Manager(s) 5
Custodian..... 5
Additional Specialists 5

GENERAL INVESTMENT PRINCIPLES..... 5
Investment Philosophy 6
Risk..... 6
Liquidity..... 7
Allowable Investments..... 7

INVESTMENT OBJECTIVES AND ALLOCATION GUIDELINES 8
Multiple Pools..... 8
Rebalancing 8

INVESTMENT CONSULTANT REVIEW 8

INVESTMENT POLICY REVIEW 8

APPENDIX A – ENDOWMENT 9

APPENDIX B – GENERAL FUND 10

INTRODUCTION

Background

The Saddleback College Foundation (“the Foundation”) is a nonprofit 501(c)(3) organization, founded in the 1980s to enhance the quality of higher education by gaining financial support for academic, athletic, and cultural programs of Saddleback College. Organized as an auxiliary California Corporation under the authority of the South Orange County Community College District, the Foundation acts as the fiscal agent for all contributions received from the public, is responsible for coordinating College fundraising activities, development and implementation of a strategic fundraising plan, and ensuring appropriate distribution of funds to college scholarships, projects, and programs.

Purpose

This Investment Policy Statement (“IPS” or “policy”) is set forth by the Board of Directors (“the Board”) of the Saddleback College Foundation to:

- Define and assign the responsibilities of all parties involved in the oversight and management of Foundation assets;
- Establish a clear understanding as to the investment goals, objectives and management policies applicable to Foundation assets according to prudent standards as established by the Board in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of California;
- Create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the Foundation, including:
 - describes an appropriate risk posture and time horizon;
 - specifies asset allocation guidelines;
 - establishes policies regarding permissible securities;
 - specifies criteria for evaluating investment results;
- Offer guidance and limitations to the Finance and Investment Committee and Investment Consultant regarding the investment of Foundation assets.

DUTIES AND RESPONSIBILITIES

Members of the Board of Directors of Saddleback College Foundation are fiduciaries, and are ultimately responsible for directing and monitoring the investment management of Foundation assets, including the establishment of this policy. As such, the Board is authorized to delegate certain responsibilities as it deems necessary or prudent for the proper administration of the Foundation’s assets. These parties may include, but are not limited to:

Finance and Investment Committee

Per the Foundation’s bylaws, the Finance and Investment Committee (“Committee”) shall consist of a minimum of three (3) members, one of whom shall be the Treasurer of the Foundation. The Board has delegated to the Committee certain duties and responsibilities regarding the management and oversight of Foundation assets, including but not limited to:

- Ensures written financial policy and procedures are created and revised as necessary, subject to Board approval, to ensure full and accurate accounting practices are followed;
- Makes recommendations to the Executive Committee and Board on the selection of the investment consultant, and other such professionals as may be reasonably required to prudently administer the Foundation's assets;
- Establishes target asset allocations and recommends investment strategies for Foundation assets within the guidelines outlined in this policy and monitoring for compliance;
- Reviews and monitors performance of Foundation assets, not less than quarterly, relative to generally accepted benchmarks for each investment class or type, and reports investment income to the Board;
- Provides oversight of all investment management costs to ensure they are reasonable and in line with industry standards;
- Periodically reviews this IPS to determine if the overall policies and objectives continue to be appropriate and reasonable and make recommendations to the Board as necessary;
- Assists the Foundation Treasurer and the Executive Director in the development of the annual operational budget recommendation and presentation to the Executive Committee and Board for approval, which shall include a recommendation of an appropriate amount to be distributed from the Endowment.
- Coordinates as necessary with the Planned Gifts and Endowments Committee;

Investment Consultant

The Investment Consultant shall act as an investment advisor to the Foundation. Specific responsibilities include:

- Designs and implements an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement;
- Advises the Finance and Investment Committee on the selection of and the allocation to asset classes;
- Identifies specific assets and investment managers within each asset category;
- Provides "due diligence", or research, on the Investment Manager(s);
- Monitors the performance of all Foundation assets under the Consultant's purview;
- Utilizes cash flows into or out of the Foundation's portfolios to rebalance toward the appropriate target asset allocations;
- Recommends changes to this investment policy statement, as needed;
- Periodically reviews the suitability of the investments for the Foundation;
- Meets with the Saddleback Foundation Finance and Investment Committee at least twice each year;
- Available at such other times within reason at the Saddleback Foundation Finance and Investment Committee's request.
- Prepares and presents appropriate reports.

Investment Manager(s)

Investment Managers are typically hired by the Foundation on the recommendation of the Investment Consultant to the Finance and Investment Committee and are charged with the responsibility to conduct day-to-day investment management of Foundation assets in accordance with this IPS and the investment strategy for which they were hired. Specific responsibilities include, but are not limited to:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement;
- Reports, on a timely basis, quarterly investment performance results
- Communicates any major changes to economic outlook, investment strategy, or any other factors that may affect implementation of investment process, or the investment objective of the Manager as a participant in the Foundation's overall management of its investments;
- Informs the Investment Consultant on a timely basis regarding any qualitative change to the investment management organization; examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- Votes proxies on behalf of the Foundation, if requested by the Finance and Investment Committee, and communicates such voting records on a timely basis

Custodian

The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Foundation, college dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of Foundation accounts.

Additional Specialists

Additional specialists, such as attorneys, auditors, actuaries, and others may be recommended to the Board by the Finance and Investment Committee to assist in meeting their responsibilities and obligations to administer Foundation assets prudently.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the Foundation.
2. The Foundation shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use.
3. In order to maintain the Foundation in perpetuity and meet its needs, the Fund will employ a strategy that emphasizes total return, relying on both current income and growth of principal (from capital appreciation, dividends, and interest income).
4. Investment of the Foundation's assets shall be diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
5. Pursuant to UPMIFA, the Foundation will consider the following factors, if relevant, in managing and investing each donor fund, except as otherwise provided by a fund agreement:

- a. The purposes of the Foundation;
 - b. The purposes of the donor fund;
 - c. General economic conditions;
 - d. The possible effect(s) of inflation or deflation;
 - e. The expected tax consequences, if any, of investment decisions or strategies;
 - f. The role that each investment plays within the overall investment portfolio;
 - g. The expected total return;
 - h. Other resources of the Foundation;
 - i. The needs of the Foundation and the donor fund to make distributions and to preserve capital; and an asset's special relationship or value, if any, to the purposes of the Foundation or donor fund.
6. Cash is to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity, and return.

Investment Philosophy

The basic tenets under which Foundation assets will be managed include the following:

1. Modern Portfolio Theory will be the philosophical foundation for how the portfolio will be structured and how subsequent decisions will be made.
2. Investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.
3. Equities have historically offered the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).
4. The approach shall be to optimize the risk-return relationship appropriate to the Foundation's needs and goals. The assets will be diversified globally across a variety of asset classes and will be periodically rebalanced to maintain a more consistent risk/reward profile. The Finance and Investment Committee and Investment Consultant shall avoid picking individual stocks, or making large tactical allocation changes in an attempt to "time the market", as these practices are unlikely to increase long-term investment returns and can significantly increase portfolio volatility and operating costs.
5. The Foundation recognizes that all investments go through cycles and, therefore, there will be periods of time in which the investment objectives are not met or when specific managers fail to meet their expected performance expectations. The Saddleback Foundation Finance and Investment Committee accepts the principle that, in the absence of specific circumstances requiring immediate action, patience and a longer-term perspective will be employed when evaluating investment performance.

Risk

Investment theory and historical capital markets data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns one must accept higher risk (e.g. volatility of return). The Foundation understands that in an effort to achieve its long-term performance objectives, the portfolio may experience periods of decline.

Liquidity

To minimize the possibility of a loss occasioned by the forced sale of securities to meet liquidity needs, the Finance and Investment Committee will periodically provide the Investment Consultant with an estimate of expected net cash flow. The Finance and Investment Committee will notify the Investment Consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves. Until which time Foundation assets exceed \$25 Million, preference should be maintained for marketable securities which can be made liquid within three (3) business days.

Allowable Investments

1. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - Short Term Investment Funds
 - Certificates of Deposit
2. Fixed Income Securities
 - U.S. Government, Agency, and Municipal Securities
 - Corporate Notes and Bonds
 - Mortgage Backed Bonds
 - Preferred Stock
 - Fixed Income Securities of Foreign Governments and Corporations
 - Maximum maturity for a single bond issue is 30 years, and non-core and long-duration fixed income managers (defined as strategies with average credit quality below investment grade or duration >10 years) cannot make up more than 15% of the total portfolio in aggregate.
3. Equity Securities
 - U.S. Common Stocks
 - Convertible Notes and Bonds
 - Convertible Preferred Stocks
 - American Depository Receipts (ADRs) or Ordinary Shares of Non-U.S. Companies, including Developed & Emerging Markets
 - Real Estate Investment Trusts (REITs)
4. Mutual Funds and Exchange Traded Funds (ETFs)
 - Mutual Funds and ETFs which invest in securities as allowed in this statement
5. Alternative Investments
 - Real Estate Investment Trusts (REITs)
 - Real Assets (e.g. MLPs, Listed Infrastructure)
 - Hedge Funds, Fund of Funds
 - Mutual Funds, and ETF's that invest in alternative asset classes or strategies
 - Structured Products

Definition

Alternative Investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies and, in many cases, organized in low or no tax jurisdictions. The managers of these investments generally are allowed to operate with greater flexibility than most traditional Investment Managers and their compensation may include performance incentives.

Objective

Investment in alternatives may be considered by this organization within the context of an overall investment plan. The objective of such investments will be to seek to diversify the portfolio, complementing traditional equity and fixed-income investments and improving the overall performance consistency of the portfolio. It is acknowledged that there is no guarantee that this objective will be realized.

Transparency and Liquidity

It is acknowledged that these investments are less transparent than traditional investments and that liquidity in such investments is usually significantly limited. Liquidity constraints, including lockup provisions and redemption or withdrawal fees, must be taken into consideration when making allocations to such investments.

INVESTMENT OBJECTIVES AND ALLOCATION GUIDELINES

Multiple Pools

Given the diverse objectives of the individual donor funds which, in aggregate, comprise the Foundation's investment portfolio, the Board has established several pools with unique risk/reward objectives, time horizons and restrictions, and, consequently, unique asset allocation guidelines. The asset allocation guidelines for each pool are detailed in the attached appendices. While the Board has set minimum and maximum asset class allocations for each pool, the establishment of target asset allocations is the responsibility of the Finance and Investment Committee.

Rebalancing

From time to time, market conditions may cause the Foundation's investment in various asset classes to vary from the approved allocation. To remain consistent with the asset allocation guidelines established by this policy, the Investment Consultant shall periodically review the portfolio and notify the Finance and Investment Committee if any action is required.

Generally, this portfolio should be rebalanced toward the target allocation as follows:

1. When the portfolio exceeds the minimum or maximum constraints (reviewed quarterly);
2. Any time there is a significant cash flow

INVESTMENT CONSULTANT REVIEW

Every five years, or earlier if conditions warrant, the Finance and Investment Committee will determine if they want to entertain having other Investment Consultants submit proposals to manage the Foundation investments.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Finance and Investment Committee plans to review the Statement of Investment Policy at least annually.

APPENDIX A – ENDOWMENT

Time Horizon:

The time horizon is perpetual and the Board is not concerned with intermediate volatility.

Spending Policy:

Distributions will be made from the Endowment at the discretion of the Board and may be taken from income, realized gains, or from the corpus, as permitted by the donor where present, so there is no requirement to generate a particular level of dividends or interest. The funds available for distribution under the target-spending rate determined each year will be calculated early in the first quarter of the calendar year based on the June 30th balances for the prior 3 years.

Investment Objective:

The primary objective is to seek a total return adequate to support the Endowment spending policy set by the Board and to maintain the purchasing power of endowed funds, net of inflation. As such, the Foundation has established an annual real (net of inflation) return target of 5.0%.

Asset Allocation Guidelines:

Asset Class	Minimum	Maximum
U.S. Equities	25%	50%
Ex-U.S. Equities	10%	40%
Fixed Income	20%	50%
Alternatives	10%	40%

APPENDIX B – GENERAL FUND

Time Horizon:

The time horizon for the General Fund is approximately 3 years.

Investment Objective:

The objective of the General Fund is a total annualized return of 4%, consistent with principal preservation.

Asset Allocation Guidelines:

Asset Class	Minimum	Maximum
U.S. Equities	10%	40%
Ex-U.S. Equities	10%	20%
Fixed Income	30%	80%
Alternatives	0%	30%