Investment Policy Statement
INTRODUCTION

The Shasta Regional Community Foundation is a community foundation that facilitates building of donor funds to provide a permanent resource for grant making and services to the communities in Shasta and Siskiyou Counties. The Board and staff have a fiduciary responsibility to meet these current needs while preserving the assets of the Foundation for long term purposes. To support these goals, the Foundation has developed an investment strategy based on fundamental financial principles that include prudent asset allocation, risk assessment and long-term planning.

PURPOSE

The purpose of this Investment Policy Statement is to establish clear investment goals and guidelines for the portfolios along with appropriate measurement benchmarks and periods. The guidelines will quantify the asset allocation limits as well as criteria for investment vehicles. Moreover, it reflects the fiduciary responsibilities with respect to each of its portfolios. This Investment Policy Statement is set forth by the Board of Directors of SRCF in order to:

- Establish the Community Foundation’s expectations, objectives and guidelines in the investment of the endowment funds, quazi-endowment funds, and long-term pooled funds of the Community Foundation (collectively, the “Portfolio”).
- Define the responsibilities of all involved parties and assign such responsibilities.
- Create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of suitable risk.
- Establish a basis for evaluating investment results.
- Establish a spending policy with respect to the donor-restricted endowment funds within the Portfolio.
- Meet the fiduciary obligations of the Board of Directors, as delegated to the Investment Committee, with respect to the management and investment of the Portfolio, according to prudent standards established in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted in California on January 1, 2009.
PHILOSOPHY

The investment philosophy of SRCF creates a management process that is sufficiently specific to be meaningful, yet flexible enough to be practical.

SRCF seeks a return on investment consistent with levels of investment risk that are prudent and reasonable for long term capital market conditions and investment objectives of the Community Foundation. Risk refers to the unpredictability of future asset value, and specifically, the chance that assets may decrease, as well as increase, in value. The assumption of risk is necessary to meet SRCF’s objectives; that is, there are no “risk free” assets, which are sufficient to generate the return needed to support planned spending. Therefore, SRCF’s policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed, and fiduciaries must use care in the balancing of risk and expected return.

The Investment Committee sets the framework for risk management through the investment policy and guidelines, asset allocation, and the benchmarks used for performance objectives. Investment oversight and risk management are primary fiduciary duties of the Investment Committee. The investment advisor/consultant(s) and/or Investment Committee, within limits of prudent diversification and risk exposure may allocate the risk exposure within and between asset classes in order to optimize return. The investment advisor/consultant(s) shall report on risk exposures and the values of the several risk measures to the Investment Committee quarterly.

DUTIES AND RESPONSIBILITIES

The Board of Directors

The members of the Board of Directors are fiduciaries charged with the oversight of the management of the assets of the Portfolio. As such, the Board is authorized to delegate certain responsibilities to the Investment Committee, as well as professional experts in various fields.

The Investment Committee

The Investment Committee members shall discharge their duties solely in the interests of the Community Foundation, in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. The specific responsibilities of the Investment Committee include, but are not limited to:

- The general oversight of the Portfolio consistent with the Committee’s interpretation of this IPS.
- Engaging qualified investment professionals, through a Request for Proposal (RFP) process, such as the Investment Advisor/consultant, Investment Manager(s), Custodian(s) and additional specialists as may be required.
- Evaluating on a regular basis the performance of any qualified investment professionals to assure adherence to this IPS.
• Recommending amendment to this IPS for consideration by the Board of Directors.
• Defining the investment objectives and policies of the Portfolio as outlined within this IPS.
• Directing Investment Advisor/Consultant to make changes in investment policy and to oversee and to approve or disapprove Investment Advisor/Consultant’s recommendations with regards to policy, guidelines, and objectives on a timely basis.

Foundation Staff
The Chief Executive Officer / Chief Financial Officer is authorized to deposit, withdraw and transfer funds for proper administration of accounts. Income and expenses associated with the pooled investment accounts will be allocated to the funds in a consistent and equal manner.

The Chief Executive Officer / Chief Financial Officer will direct the Investment Advisor/Consultant to use the performance review guidelines to calculate and present a written report on investment performance to the Investment Committee. In addition, new investment options will be explored and evaluated and presented to the Investment Committee when appropriate.

The Investment Advisor/Consultant
The Investment Advisor/Consultant’s role is that of a non-discretionary advisor/consultant to the Investment Committee. Investment advice concerning the investment management of the Portfolio will be offered by the Investment Advisor/Consultant, and will be consistent with this IPS. Specific responsibilities of the Investment Advisor/Consultant include, but are not limited to:

• Monthly, each Investment Advisor/Consultant will provide a statement that includes all activity in the investment fund. The statement will include, but is not limited to, all interest, dividends and other earned income, all transaction and investment activity, and an itemized list of all assets held by initial investment and market value.
• Quarterly and annual reports are required with the same information as the monthly statement summarizing the investment activity for that time period. In addition, reports are required to show measurements against appropriate index, and an analysis of each portfolio’s specific characteristics and fees charged.
• Investment Advisor/Consultants are required to inform the Foundation of any material change in fundamental investment policy, firm ownership, organizational structure, professional personnel, or account structure.
• Assisting in the development and periodic review of this IPS.
• Designing and implementing an appropriate asset allocation plan consistent with the asset allocation parameters set forth in this IPS. Assisting the Investment Committee with the periodic rebalancing of the Portfolio.
• Identifying Investment Managers within each asset class consistent with the asset allocation parameters set forth in this IPS, including such due diligence or research as the Investment Committee may require and comparative benchmarks for assessment of Investment Manager performance. Assisting the Investment Committee in the negotiation of fees with the Investment Manager(s). Recommending the termination and/or change of any Investment Manager(s).

• Monitoring the performance of the Investment Managers quarterly and reporting to the Investment Committee on the progress of the Managers relative to the investment objectives.

• Being available to meet with the Investment Committee. Reviewing the Portfolio’s investment history, capital market performance and the contents of this IPS with any newly appointed Investment Committee member.

The Investment Manager(s)
Each Investment Manager will have full discretion to make all investment decisions for assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this IPS. Specific responsibilities of the Investment Manager(s) include:

• Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this IPS.

• Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund’s investment management.

• Informing the Investment Advisor regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment policy, etc.

• Voting proxies, if requested by the Investment Committee, on behalf of the Community Foundation.

Selection Criteria
The Investment Committee will be responsible for the selection process of investment managers using the following criteria. A recommendation will be made to the Board based upon the results of the proposals from the advisor/consultant. The Committee is also responsible for evaluating new investment options when appropriate.

Desirable Attributes
1) Well-defined investment philosophy that provides a discernible edge in the gathering or processing of data.
2) Evidence that the philosophy has been faithfully executed over time.
3) Successful historical performance of returns (long-term and short-term) as compared to relevant standard benchmarks.
4) Reasonable assets in relation to investment philosophy.
5) Adaptive to changes in investment management industry.
6) Investment management is primary business.
7) Managers are experienced professionals with solid background of successful investment strategy.
8) Competitive Fee Structure.

Undesirable Attributes
1) High personnel turnover.
2) Disorganization.
3) Inability to follow Foundation investment policy guidelines.
4) Poor historical performance.

Disqualifying Attributes
1) Criminal conviction(s) or sanctions.
2) Persons engaged primarily in brokerage of investment management.
3) Inability to meet performance reporting deadlines.

Performance Review
The Investment Committee will review the performance of the investment managers using the following guidelines and report to the Board of Directors.

Returns
1) The equity portion of the Portfolio is to meet the appropriate benchmark per annum, net of fees.
2) The fixed income portion of the Portfolio is to meet the Index, net of fees.
3) The performance will be measured against these indices on a quarterly and yearly basis (short-term), over a three to five year period (long-term), and from inception.
4) Performance may be measured using any other standard index that provides comparative results.

Risk
Investments will achieve the targeted rate of return while at the same time experiencing a level of volatility – being the up/down movements of the value of the managed funds – that is in accordance with appropriate benchmark.

Overall
The overall performance of the investment managers will be based on the following:
1) Comparison of returns between investment managers.
2) Fees charged.
3) Evaluation of results compared to other foundations of comparable size.
4) Working relationship between investment manager and the Foundation.
5) Consistency with investment philosophy, return relative to objectives, and investment risk as measured by asset concentration, exposure to extreme economic conditions, and market volatility.
GENERAL INVESTMENT PRINCIPLES

Management of the Portfolio will follow the general investment guidelines set forth below:

1. Investments shall be made solely in the interests of the Community Foundation.
2. The Portfolio shall be invested with the care an ordinarily prudent person in a like position would exercise under similar circumstances. Particularly in managing and investing the Portfolio, the following factors, if relevant, must be considered: general economic conditions; the possible effect of inflation or deflation; the expected tax consequences, if any, of investment decisions or strategies; the role that each investment or course of action plays within the overall investment assets of the Portfolio; the expected total return from income and the appreciation of investments; other resources of the Community Foundation; the needs of the Community Foundation and the Portfolio to make distributions and to preserve capital; and an asset's special relationship or special value, if any, to the purposes of the Portfolio.
3. Investment of the assets shall be so diversified as to minimize the risk of large losses.
4. The Investment Committee may employ investment professionals, such as an Investment Advisor/Consultant, Investment Manager(s), Custodian(s) and additional specialists as may be required to attain the objectives set forth in this IPS. Any person who has special skills or expertise, or is selected in reliance upon that person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing the Portfolio.

ENDOWMENT FUND SPENDING POLICY

Distributions from the Portfolio are made using the total return method. Under the total return method, distributions consist of interest, dividends and realized and unrealized gains. In its determination to appropriate or accumulate, the Investment Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: the duration and preservation of the Endowment Fund; the purposes of the Community Foundation and the Endowment Fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Community Foundation; where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the Endowment Fund, giving due consideration to the effect that such alternatives may have on the Community Foundation, and the investment policy of the Community Foundation for each determination to appropriate for expenditure, the Community Foundation shall keep a contemporaneous record describing the consideration that was given by the Investment Committee to each of the factors enumerated above.
The Investment Committee has established a spending rate as follows: up to 4% (four percent) annually based on a rolling 12 quarter average fair market value of the temporarily and permanently restricted investments. Net assets are released from restriction up to this spending rate approved by the Investment Committee. The Community Foundation has adopted this spending policy in order to preserve the historic dollar value of gifts, and meet fund and community needs currently and in the future. The Board will review this spending policy on an annual basis and has the authority to change the policy as necessary.

**INVESTMENT OBJECTIVES**

The Portfolio’s aggregate investment objective is to achieve total investment returns that, over a term of ten years or more, provide sufficient revenue to support an average annual distribution rate of six percent (6%), while maintaining the purchasing power of the Portfolio.

**TIME HORIZON**

The Community Foundation’s objectives for the Portfolio are currently anticipated to continue without significant modification for a period of: More than 10 years.

**RISK TOLERANCE**

Investment theory and historical capital market return 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).

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Portfolio is the determination of the amount of risk the Investment Committee can tolerate.

The Investment Committee desires long-term investment performance sufficient to meet the objectives. The Investment Committee understands that to achieve such performance the Portfolio may experience periods of decline. The Investment Committee further understands that in a severe market, the potential recovery period could be extensive.

Although the Investment Committee prefers to limit the Portfolio’s volatility, they are comfortable with moderate fluctuations in the Portfolio, and are willing to accept short-term loss, in order to seek to grow the Portfolio over time.

It should be recognized that the Portfolio will invest in a variety of securities and that the actual weighting of these securities can and will vary. It is also important to note that future returns of the securities within the Portfolio and the Portfolio itself can be expected to vary from the historical returns.
The Portfolio’s historical rate of return is not a guarantee of future investment returns. Future returns could differ significantly and capital loss is possible. This IPS shall not be construed as offering a guarantee.

**INVESTMENT MANAGEMENT GUIDELINES**

The Investment Committee shall adhere to the guidelines stated in this policy. All policies, guidelines and objectives shall be in force until modified in writing by the Board of Directors. Investment performance shall be reviewed at least quarterly by the Investment Committee.

**Asset Allocation**

To achieve its investment objective, the following asset mix will be maintained:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Minimum %</th>
<th>Maximum %</th>
<th>Target %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>50</td>
<td>70</td>
<td>60</td>
</tr>
<tr>
<td>Fixed Income/Cash</td>
<td>30</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>U. S. Equities</td>
<td>30</td>
<td>50</td>
<td>40</td>
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<tr>
<td>International Developed Countries</td>
<td>5</td>
<td>25</td>
<td>15</td>
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<tr>
<td>Emerging Markets Countries</td>
<td>0</td>
<td>15</td>
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<tr>
<td>Bonds</td>
<td>15</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>5</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>Alternatives</td>
<td>(Due to mix of allocation %’s, only “Target %” column will total 100%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Investment Committee may recommend for Board approval changes to these ratios as needed. Such updates will be considered part of this IPS.

**Rebalancing Guidelines**

The percentage to each asset class may vary as much as plus or minus 10% (+/-1,000 basis points) from the target percentage, depending upon market conditions. If the percentages within the total portfolio breach the above parameters, the Investment Committee will take corrective action. These parameters also apply to portfolios managed by Investment consultants in accordance with the IPS. The Investment consultant will proactively contact the Shasta Regional Community Foundation CFO with rebalancing recommendations for the Investment Committee to consider. When necessary and/or
available, cash inflows/outflows will be invested in a manner consistent with the portfolio’s
target asset percentages. If there are no cash flows, the asset percentages of the Portfolio
will be reviewed quarterly.

Equities
The purpose of the equity portion of the Portfolio is to provide principal appreciation that
exceeds inflation and to provide growth of capital in support of spending needs. It is
recognized that equity investments carry greater market risk than other asset categories.

The specific Portfolio management decisions, including security selection, size and quality
and number of holdings are left to the Investment Committee’s discretion subject to
standards of fiduciary practice.

Fixed Income/Cash Alternatives
The purpose of the fixed income/cash alternatives portion of the Portfolio is to provide a
hedge against deflation; to produce current income in support of spending needs; to
minimize the overall volatility of the portfolio; and to provide liquidity in adverse market
conditions. Funds shall be invested in short-term, intermediate and long-term maturity
fixed income vehicles. Portions of the Portfolio may be held from time to time in short-term
fixed income or cash equivalent securities for expenses and grant payments.

TYPES OF APPROVED ASSETS

Cash and Cash Equivalents
The Portfolio can include cash and cash equivalents. The fraction of the Portfolio’s
aggregate market value invested in cash and cash equivalents will remain within the limits
specified in the asset allocation guidelines, above. Qualified cash equivalents investments are:

- Treasury Bills
- Money Market Funds
- Commercial Paper
- Repurchase Agreements
- Certificates of Deposit
- Government Agency Discount Notes

Fixed Income Investments
The Portfolio can include fixed income securities. The fraction of the Portfolio’s aggregate
market value invested in fixed income securities will remain within the limits specified in
the asset allocation guidelines, above. Qualifying fixed income securities are:

- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Mortgage Backed Bonds
- Preferred Stock
Direct investments in U.S. Corporate debt shall be limited to an amount per issuer not to exceed 5% of the aggregate market value of the Portfolio, and upon initial purchase must be of investment grade as rated by Moody’s and/or Standard and Poor’s rating services. Individual treasury securities may represent 10% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Fund’s aggregate bond position. Should any bond rating of an individually held bond subsequently be reduced below investment grade, the Portfolio shall immediately be reviewed to determine if investment considerations warrant it being discharged. The maximum maturity of an individual bond shall not exceed thirty years and the average duration shall not exceed fifteen years.

**Equity Securities**
The Portfolio may include equity securities of U.S. Corporations and International Corporations. The fraction of the Portfolio’s aggregate market value invested in equity securities will remain within the limits specified in the Asset Allocation Guidelines, above. Individual equities held in the Portfolio are to be traded on one of the national or regional securities exchanges or in the national Over the Counter Market (OTC). Direct individual equity investments portions shall not exceed five percent (5%) at cost or ten percent (10%) at Market Value of the Portfolio’s aggregate market value. Qualified Equity Securities are:

- Common Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- American Depository Receipts (ADRs) of Non-U.S. Companies
- Stocks of Non-U.S. Companies (Ordinary Shares)
- REITS – Real Estate Investment Trusts

**Alternative Assets**
The Portfolio may include alternative investments as specified below. The structure of the allowable investments may be in the form of mutual funds, pooled trusts and/or limited partnerships with no less than quarterly liquidity. The fraction of the Portfolio’s aggregate market value invested in alternatives will remain within the limits specified in the asset allocation guidelines, above.

- Commodity Mutual Funds
- Hedge Fund of Funds

**Mutual Funds**
Assets may include stocks, bonds, cash equivalents or some combination of securities which are allowed in this statement. The investments of such mutual funds in the asset classes (cash and cash equivalents, fixed income securities, equity securities, alternative assets) will be included when determining the aggregate amounts of the Shasta Regional Community Foundation portfolio invested in these asset classes.
NON CASH ADDITIONS TO INVESTMENT FUNDS

The Investment Consultants are responsible to acknowledge receipt of additional assets that have been transferred to the Foundation. Acknowledgements should be made within two business days of receipt. Any additions to the investment funds in the form of securities shall be sold as soon as it is administratively feasible to do so and reinvested in accordance with this policy.

PROHIBITED TRANSACTIONS

Prohibited transactions include: single position commodity trading (including all individual futures contracts), purchasing of restricted stock or other non-marketable securities, selling short and margin purchases, derivatives, option swaps, and uncovered options.

INVESTMENT MANAGER CRITERIA

The Investment Committee, subject to Board approval, is authorized to engage the services of one or more investment manager(s) who possess the necessary specialized research facilities and skills to meet the Community Foundation’s investment guidelines and objectives. The investment manager(s) shall have, at least 10 years of experience in investment management. SRCF assets under management should not be more than 5% of the investment manager total responsibility and should manage at a minimum $50 million in assets. The Investment Committee shall perform reasonable due diligence in evaluating prospective manager(s).

Investment managers hired by the Community Foundation shall have a minimum five year performance record for the investment style proposed and shall have outperformed their benchmarks over at least three of the past five years at a commensurate level of risk. The Community Foundation requires any investment manager(s) to be registered under the Investment Advisors’ Act of 1940.

It is expected that, as a minimum requirement, investment managers will comply with The Code of Ethics and the Standards of Professional Conduct as established by the CFA Institute and should have one of the following four credentials:

- **Chartered Financial Analyst**
  This globally recognized standard, awarded by the Association for Investment Management and Research (AIMR), measures the competence and integrity of financial analysts. Requirements include passing three examination levels, having at least 3 years of acceptable professional experience working in investment decision making processes, signing and agreeing to professional code of conduct, a member’s agreement and continuous exhibition of a high degree of ethical and professional conduct.
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- **SEC Registration/Form ADV**
  Any investment manager who provides advice about securities must be registered with the Securities and Exchange Commission and/or the state securities agency, depending on the total value of assets under management. Most managers are required to file Form ADV with regulators.

- **Certified Financial Planner (CFP)**
  CFP practitioners are certified by the CFP Board of Standards as competent and ethical financial planning service professionals. They voluntarily submit to the rigorous CFP certification process that includes significant education and experience requirements, a comprehensive examination on personal financial planning knowledge and skills, continuous education and agreement to the CFO Board’s Code of Ethics and Professional Responsibility and Financial Planning Practice Standards.

- **Certified Investment Management Analyst (CIMA)**
  The CIMA certification signifies that an individual has met initial and on-going experience, ethical, education, and examination requirements for investment management consulting, including advanced investment management theory and application. Prerequisites for the CIMA certification are three years of financial services experience and an acceptable regulatory history.

**Fees**

All expenses for such managers must be customary and reasonable. *Fees will be reviewed for all investment managers and advisor/consultants on at least an annual basis.*

**ADVISOR/CONSULTANT CRITERIA**

The Investment Committee will review the investment advisor/consultant(s) using the following criteria:

- Shall have at least 10 years of experience as an investment advisor/consultant
- Should have at least one of the following three credentials:
  - Chartered Financial Analyst
  - Certified Financial Planner
  - Certified Investment Management Analyst
- Ability to meet the performance objectives stated in this Investment Policy Statement.
- Adherence to the philosophy and style that were provided by the investment advisor/consultant to the Investment Committee when the investment advisor/consultant was retained.
- Continuity of personnel and practices at the firm.
- Compliance with Investment Policy requirements.
The overall performance of the investment advisor/consultant(s) will be based on the following:

- Risk adjusted rate of return
- Evaluation of results compared to other Foundations of comparable size and circumstances (e.g., asset allocation).

**Conflicts of Interest**

It is the policy of the Board to avoid conflicts of interest in its operations and in the selection of investment advisor/consultant/managers or funds. Therefore, the Shasta Regional Community Foundation Board, Staff or Volunteers, including Investment Committee members, shall not have a material financial relationship in any advisor/consultant/manager or fund being considered. No independent investment consultant retained by SRCF, or any entity, in which such consultant may have an interest, shall be a part to any transaction with, or have a financial or other interest in, any investment advisor/consultant/manager providing services to SRCF or any fund in which SRCF has an investment.

**DONOR RECOMMENDATION OF INVESTMENT ADVISOR/CONSULTANTS**

A donor to a donor advised fund, an organization that has established an organizational endowment or the advisor(s) of a donor advised fund may recommend that the Community Foundation engage a specific qualified investment manager to invest the assets of the fund if the fund has a fund balance of at least $1 million. If the Investment Committee finds that the recommended manager meets the licensing, experience and other qualifications which the Community Foundation has established for investment managers, the Committee may recommend to the Board for approval the appointment of the recommended manager to invest the assets in the fund. The recommended manager must maintain the qualifications set by the Community Foundation for investment managers. The investment manager will follow SRCF Investment Policies.

The Investment Committee will evaluate the recommended manager's investment performance on the same basis as is applied to other investment managers employed by the Community Foundation. The Community Foundation retains full authority to appoint or remove any one or more investment managers, whether appointed upon the recommendation of a donor or fund advisor, or appointed upon the recommendation of the Investment Committee after approval by the Board.

**DISCLAIMER**

This statement is to be used only as a guideline to formulate and monitor the investment practices of the Shasta Regional Community Foundation assets. It is not a contractual statement. It is to be used as a flexible document to assist the Investment Committee in the management of its fiduciary duties.