Cabrillo College

Foundation

Est. 1965

STATEMENT OF INVESTMENT POLICY

OBJECTIVES & GUIDELINES

Board of Directors
approved November 1, 2016

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Cabrillo College Foundation

GENERAL INFORMATION

Background Information

The Cabrillo College Foundation was established in 1965. The "Foundation" is crucial to the continuing development of College and the surrounding community.

Mission Statement

The Foundation's mission is to operate for the advancement of education; to solicit and raise money for scholarship, facilities, equipment, research and education projects; to improve faculty teaching competence; to provide departmental support; and to otherwise provide aid supplementary to public tax dollars for the support and benefit of Cabrillo College.

Scope of This Investment Policy

This statement of investment policy reflects the investment policy, objectives, and constraints of The Cabrillo College Foundation.

Purpose of This Investment Policy Statement

This statement of investment policy is set forth by the Board of the Cabrillo College Foundation in order to:

1. Define and assign the responsibilities of all involved parties.

2. Establish a clear understanding for all involved parties of the investment goals and objectives of Foundation assets.

3. Offer guidance and limitations to all Investment Managers regarding the investment of Foundation assets.

4. Establish a basis for evaluating investment results.

5. Manage Foundation assets according to prudent standards as established in common trust law.

6. Establish the relevant investment horizon for which the Foundation assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DEFINITIONS

1. "Foundation" shall mean the Cabrillo College Foundation.

2. "Finance Committee" shall refer to the governing board established to administer the Foundation as specified by applicable ordinance.

3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over Foundation management or any authority or control over management, disposition or administration of the Foundation assets.

4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Foundation assets.

5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.

6. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.

7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Foundation is infinite.

8. “Derivative Securities” are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others.

9. “Industry” is the term used for categorizing individual companies into sub-sectors based primarily on a company’s “source of revenue or where it constitutes the majority of revenue.” The following are examples of sub-sectors:

   Oil & Gas (Producers, Equipment, Services and Distribution)

   Basic Materials (Chemicals, Forestry & Paper, Industrial Metals & Mining)

Industrials (Construction & Materials, Aerospace & Defense, General Industrials, Electronic & Electrical Equipment)

Consumer Goods (Automobiles & Parts, Beverages, Food Producers, Household Goods, Leisure Goods, Personal Goods & Tobacco)

Telecommunications (Fixed Line and Mobile Telecommunications)

Utilities (Electricity, Gas, Water & Multi-utilities)

Financials (Banks, Insurance, Real Estate, General Financial, Equity and Non-equity Investment Instruments)

Technology (Software, Hardware, Equipment and Computer Services)

Real Estate

Health Care

Bio Tech

AUTHORITY AND DUTIES OF THE FINANCE COMMITTEE

The Finance Committee of the Cabrillo College Foundation is a fiduciary, and is responsible for directing and monitoring the investment management of Foundation assets. As such, the Finance Committee is authorized to employ one or more Investment Management Consultants, Investment Managers, custodians, co-trustees, specialists and other professional experts and to delegate certain responsibilities to these Professional Experts including, but not limited to:

1. Investment Management Consultant. The Investment Management Consultant may assist the Finance Committee in: establishing investment policy, objectives, and guidelines; selecting Investment Managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

2. Investment Manager. The Investment Manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Foundation's investment objectives.

3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Foundation, collect 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 the Foundation accounts.

4. Co-Trustee. The Finance Committee may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-trustee will assume fiduciary responsibility for the administration of Foundation assets.

5. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Finance Committee to assist in meeting its responsibilities and obligations to administer Foundation assets prudently.

The Investment Management Consultant will advise the Finance Committee on the selection and replacement of Investment Managers, the placement of funds with Investment Managers, allowable assets held by the Foundation and the allocation of those assets. The Finance Committee and not the Investment Management Consultant has the sole authority to select Investment Managers and to determine allowable assets and the allocation of those assets.

The Finance Committee will not purchase or sell the securities owned by the Foundation but instead delegates that responsibility to Investment Managers. The Finance Committee will hold the Investment Management Consultants responsible and accountable for measuring and evaluating the extent to which the Investment Managers are achieving the Foundation's investment objectives and are conforming to the Foundation's investment policies. The Finance Committee encourages Investment Management Consultant(s) and Investment Managers to identify investment policies and guidelines that hamper the achievement of the Foundation's investment objectives.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Investment Management Consultant(s)

The Investment Management Consultant's role is that of a non-discretionary advisor to the Finance Committee of the Cabrillo College Foundation. Investment advice concerning the investment management of Foundation assets will be offered by the Investment Management Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Management Consultant(s) include:

1. Assisting in the development and periodic review of investment policy, including active asset allocation and portfolio optimization.

2. Conducting Investment Manager searches.

3. Providing "due diligence", or research, on the Investment Manager(s).

4. Monitoring the performance of the Investment Manager(s) to provide the Finance Committee with the ability to determine the progress toward the investment objectives.

5. Communicating matters of policy, manager research, and manager performance to the Finance Committee.

6. Reviewing Foundation investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Finance Committee.

7. Communication of any adverse change related to any Investment Manager monitored.

Responsibility of the Investment Manager(s)

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

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

2. Provide monthly investment performance results, on a timely basis.

3. 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 Foundation's investment management.

4. Informing the Finance Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. Voting proxies, if requested by the Finance Committee, on behalf of the Foundation, and communicating such voting records to the Finance Committee on a timely basis.

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 person acting in like capacity and familiar

with such matters would use in the investment of a Foundation of like character and with like aims.

3. 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.

4. The Finance Committee may employ one or more Investment Management Consultants of varying styles and philosophies to attain the Foundation's objectives.

5. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return. As soon as it is practical, the Cabrillo College Foundation will invest in institutions within the FDIC insured limits.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, Investment Management Consultants should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Finance Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Foundation's objectives. However, the Investment Management Consultants are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

3. Adherence to Investment Discipline - Investment Management Consultants are expected to adhere to the investment management styles for which they were hired. Investment Managers will be evaluated regularly for adherence to investment discipline.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Cabrillo College Foundation is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Spending Policy

The Endowment's spending policy has a target total return of 7.0%. The target distribution rate of 4.0% will be calculated over a trailing 12 quarter period for endowment funds with a Historical Gift Balance of 80% or greater. *The Spending Policy is 7.0% (4.0% distribution rate + 1.5% inflation factor + 1.5% management fee).*

Specific Investment Goals

Over the investment horizon established in this statement, it is the goal of the Foundation that the assets meet or exceed:

An absolute rate of return of 7.0%

The investment goals above are the objectives of the aggregate Foundation, and are not meant to be imposed on each investment account. The goal of each Investment Manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Finance Committee that most closely corresponds to the style of investment management.

2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each Investment Manager, if any, shall be incorporated as part of this statement of investment policy. Each manager shall receive a written statement outlining his specific goals and constraints as they differ from those objectives of the entire Foundation.

Definition of Risk

The Finance Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Cabrillo College Foundation assets understands how it defines risk so that the assets are managed in a manner consistent with the Foundation's objectives and investment strategy as designed in this statement of investment policy. The Finance Committee defines risk as:

The probability of not meeting the Foundation's objectives.

INVESTMENT GUIDELINES

Liquidity

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Finance Committee will periodically provide the Investment Management Consultant with an estimate of expected net cash flow. The Finance Committee will notify the Investment Management Consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

To maintain the ability to deal with unplanned cash requirements that might arise, the Finance Committee requires that a minimum of 2% of Foundation assets shall be maintained in cash or cash equivalents, including money market Funds or short-term U.S. Treasury bills.

Allowable Investments

1. Cash Equivalents
    - Treasury Bills
    - Money Market Fund
    - Short Term Investment Fund
    - Commercial Paper
    - Banker's Acceptances
    - Repurchase Agreements
    - Certificates of Deposit

2. Fixed Income Securities
    - U.S. Government and Agency Securities
    - Corporate Notes and Bonds
    - Mortgage Backed Bonds
    - Preferred Stock
    - Fixed Income Securities of Foreign Governments and Corporations
    - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMOs

3. Equity Securities
    - U.S. Common Stocks
    - Convertible Notes and Bonds
    - Convertible Preferred Stocks
    - American Depository Receipts (ADRs) of Non-U.S. Companies
    - International Common Stocks including Developed & Emerging Markets
    - REITS

4. Mutual Funds
    - Mutual Funds which invest in securities as allowed in this statement.

5. Alternative Investments
    - Definition
      While there is no uniform definition of the term "alternative investments," for the purpose of this policy, the Foundation defines alternative investments as strategies that seek to provide attractive returns and diversification through the ownership of non-traditional assets (those other than public equities, fixed income, or cash), or through the use of innovative and flexible strategies (such as the ability to short, add leverage and/or hedge). Examples could include, but are not limited to private equity, private real estate, other private investments focusing on real assets, commodities, hedge funds, and derivatives-based strategies. These strategies may be structured as illiquid, partially liquid, or fully marketable investments.

    - Liquidity
      The Foundation recognizes that certain alternative investments entail a greater degree of illiquidity, such as private equity, real estate, infrastructure, private partnership vehicles, etc. As a long-term investor, the Foundation has the ability to bear some degree of illiquid investments, but consideration should be given to the size that such allocations may comprise in times of market stress to ensure that the overall allocation to such categories does not exceed the intent of policy and negatively impact the Foundation's ability to meet ongoing cash flow needs. As such, the allocation to investment strategies or vehicles with less than daily liquidity shall be limited to 25% of the overall allocation to alternative investments.

    - Transparency
      The Foundation shall only invest in alternative investments which provide sufficient transparency into the investment decision making process and any expenses, and regularly report position-level portfolio holdings.

    - Leverage
      Leverage is a condition where the net potential monetary exposure of an obligation exceeds the value of the underlying assets. Leverage is not permitted at the total portfolio level. Underlying investment managers may use leverage so long as it is used in a manner consistent with the discipline for which the Foundation hired the investment manager and does not introduce material leverage at the total portfolio level. Use of leverage will be controlled by the investment manager's guidelines and will be subject to review by the Investment Consultant and Investment Committee.

    - Derivatives and Derivative Securities
      Certain of the Foundation's managers may be permitted under the terms of their specific investment guidelines to use derivative instruments. Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include (but are not limited to) futures, forwards, options, options on futures, warrants, and interest-only and principal-only strips. Examples of appropriate applications of derivative strategies include hedging market, interest rate, or currency risk, maintaining exposure to a

desired asset class while making asset allocation changes, gaining exposure to an asset class when it is more cost-effective than the cash markets, and adjusting duration within a fixed income portfolio. No derivative positions can be established that have the effect of creating portfolio characteristics outside of portfolio guidelines. Investment managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions. Each manager using derivatives shall (1) exhibit expertise and experience in utilizing such products; (2) demonstrate that such usage is strategically integral to their security selection, risk management, or investment processes; and (3) demonstrate acceptable internal controls regarding these investments.

Prohibited Investments

Prohibited investments include, but are not limited to the following:

1. Private Placements
2. Venture-Capital Investments
3. Derivative Investments (except as described above)
4. Non traded REITs

Prohibited Transactions

Prohibited transactions include, but are not limited to the following:

1. Short Selling (except within alternative investments)
2. Margin Transactions

Asset Allocation

Each Investment Management Consultant is required to adhere to the following Asset Allocation at market value:

Asset Class	Minimum	Maximum
Domestic Equities	25%	65%
International Equities	15%	35%
Fixed Income	15%	40%
Alternative Investments	0%	15%
Cash and Equivalents	0%	5%

The Investment Management Consultant(s) shall notify the Finance Committee in a timely manner when the Asset Allocation is out of compliance. In that event, the Finance Committee will instruct the Investment Management Consultant(s) to bring the portfolio(s) into compliance with the Asset Allocation as promptly and prudently as possible

Environmental, Social, and Governance Investment Policy Statement

Cabrillo College Foundation is sensitive to providing an opportunity to donors wishing to take into consideration Environmental, Social, and Corporate Governance (ESG) issues when making investment decisions. The Cabrillo College Foundation Board continues to monitor and take into account a wide variety of information to help it I determining what it considers to be socially responsible investments. In carrying out its ESG policy, the Board will continue to give specific instructions to its investment managers about investing or not investing in particular products, companies, and countries.

In accordance with this policy, the Environment, Social, and Governance Portfolio will seek to include those companies that promote environmental, social, and corporate governance concerns and will be screened based on the following:

Environmental Screens – Climate Change Responsible Disposal of Hazardous Waste, Promotion and Use of Alternative Energy, and Sustainability.

Social Screens – Promotion of Diversity, Human rights, Consumer Protection, and Animal Welfare, in addition to the exclusion of companies producing Alcohol, Nuclear Power, Firearms, Tobacco, Military Weapons, Gambling, and Adult Entertainment.

Corporate Governance Screens – Management Structure, Employee Relations, and Executive Compensation.

Exclusionary Screen – Divestment from ownership of companies that are members of the Global Industry Classification Standard (GICS) sub-industry Coal and Consumable Fuels*

*Defined by MSCI and Standard & Poor's as companies primarily involved in the production and mining of coal, related products and other consumable fuels related to the generation of energy. Excludes companies primarily producing gases classified in the Industrial Gases sub-industry and companies primarily mining for metallurgical (coking) coal used for steel production.

Volatility of Returns

The Finance acknowledges that it will experience volatility of returns and fluctuations in the market value of its assets. While the Foundation's primary concern is the achievement of its investment objectives, it is the policy of the Foundation that it's Investment Management Consultant(s) and Investment Managers minimize the probability of losses greater than 15.0% over any one year period.

Diversification for Investment Managers

The Finance Committee does not believe it is necessary or desirable that securities held in the Foundation represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 5% of the total Foundation assets, and no more than 20% of the total Foundation assets should be invested in any one industry. Individual treasury securities may represent 20% of the total foundation assets, while the total allocation to treasury bonds and notes may represent up to 100% of the Foundation's aggregate bond position.

SELECTION OF INVESTMENT MANAGERS

The Finance Committee selection of Investment Manager(s) must be based on prudent due diligence procedures. All Investment Manager(s) must either be (1) registered under the Investment Company Act of 1940, (2) a bank, as defined in that Act, (3) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of Foundation assets, or (4) such other person or organization authorized by applicable law or regulation to function as an Investment Manager. The Finance Committee requires that each Investment Manager provide, in writing, acknowledgment of fiduciary responsibility to the Cabrillo College Foundation.

REVIEWING OTHER INVESTMENT MANAGEMENT CONSULTANTS

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

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Management Consultant shall be compiled at least quarterly and communicated to the Finance Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Finance Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.

2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.

3. Significant qualitative changes to the investment management organization.

Investment Managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

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 Committee plans to review the Statement of Investment Policy at least annually.

The original Statement of Investment Policy was adopted on March 10, 1999 by the Finance Committee of the Cabrillo College Foundation.