Cabrillo College

Foundation

Est. 1965

STATEMENT OF INVESTMENT POLICY

OBJECTIVES & GUIDELINES

Board of Directors
Approved May 11, 2021

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GENERAL INFORMATION

Background Information

The Cabrillo College Foundation ("Foundation") was established in 1965. The Foundation is crucial to the continuing development of Cabrillo 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. Outline the philosophy and policies which will guide the investment of Foundation assets toward desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.
2. Define and assign the responsibilities of all involved parties.
3. Establish the relevant investment horizon for which Foundation assets will be managed.
4. Establish a clear statement of the investment goals and objectives of Foundation assets.
5. Set forth guidelines for managing Foundation assets according to prudent standards as established by the Board in accordance with UPMIFA.
6. Offer guidance and limitations to the Investment Consultant regarding the investment of Foundation assets.
7. Establish a basis for evaluating investment results.

DUTIES AND RESPONSIBILITIES

Members of the Board of Directors of the Cabrillo College Foundation are fiduciaries, and are responsible for directing and monitoring the investment of Foundation assets. Additionally, they are responsible for establishing policies used to administer the Foundation's investment activities. As such, the Board is authorized to delegate certain responsibilities and may employ or arrange for the services of such other persons, agents, or assistants as, in its opinion, are deemed necessary or desirable for the proper administration of the Foundation's investments, and to pay reasonable compensation for their services and expenses. The Board expects that any such parties associated with the Foundation will discharge their respective responsibilities in accordance with normal fiduciary standard. These parties may include, but are not limited to:

1. Finance and Investment Committee. The Finance and Investment Committee is established pursuant to Article 7b(3) of the Foundation's Bylaws. Subject to the general supervision and ratification of the Board, the Finance and Investment Committee shall exercise control over the funds of the Foundation. Specific responsibilities of the Finance and Investment Committee include:
    a. Carrying out all current policies set forth in the Foundation's Investment Policy;
    b. Advising the Board on the selection of an Investment Consultant;
    c. Overseeing and monitoring the status of the Foundation's assets;
    d. Advising the Board on spending (SEE APPENDIX A), investment, and cash management policies, including asset allocation and prohibited transactions;
    e. Setting and evaluating the target total return on investments;
    f. Making recommendations to the Board on other fiscal policies and procedures;
    g. Carrying out a performance review of the Investment Consultant every 5 years, or earlier if conditions warrant;
    h. Carrying out an annual review of the Investment Policy Statement.
2. Investment Consultant. Specific responsibilities of the Investment Consultant include:
    a. Assisting the Finance and Investment Committee in establishing investment policy, objectives, and guidelines
    b. Directing asset allocation and selecting Investment Managers on a discretionary basis, subject to the guidelines and limits of this policy, and reviewing such managers quarterly;
    c. Measuring and evaluating investment performance; and
    d. Other tasks as deemed appropriate.
3. Investment Manager. Investment Managers have discretion to purchase, sell, or hold the specific securities that will be used to meet the Foundation's investment objectives.
4. 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.
5. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Finance and Investment Committee to assist the Board in meeting its 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 man 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. 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.

4. 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.

Definition of Risk

The Finance and Investment 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 and Investment Committee defines risk as:

The probability of not meeting the Foundation's objectives.

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 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.

To maintain the ability to deal with unplanned cash requirements that might arise, the Finance and Investment 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 Funds

- Short Term Investment Funds
- 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. Therefore, investment strategies or vehicles that require longer than three (3) months to liquidate

will require Finance and Investment Committee approval.

- 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

While the Foundation may consider professionally managed strategies that include one or more of the following, direct investment in the following investment or transaction types are prohibited:

1. Private Placements
2. Venture-Capital Investments
3. Derivative Investments (except as described above)
4. Non traded REITs
5. Short Selling (except within alternative investments)
6. Margin Transactions

Volatility of Returns

The Foundation 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 its Investment 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 and Investment 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.

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 Cabrillo College 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.

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

APPENDIX A - SPENDING POLICY AND INVESTMENT OBJECTIVES FOR ENDOWED FUNDS

SPENDING POLICY

The Endowment's spending policy requires 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 current market value that is greater than or equal to 80% of the historical gift balance. *The Spending Policy is 7.0% = 4.0% distribution rate + 1.5% inflation factor + 1.5% management fee*.

INVESTMENT OBJECTIVES

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, Investment 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 and Investment 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 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 Managers 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.
4. 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.

APPENDIX B - SHORT-TERM PORTFOLIO

INVESTMENT OBJECTIVES AND ALLOCATION GUIDELINES

Time Horizon
The Short-Term Portfolio is intended for non-endowed donor funds with short-term (0-1 year) spending plans.

Investment Objective
The objectives of the Short-Term Portfolio are capital preservation and liquidity. The portfolio will be invested in cash or cash equivalents, including money market funds.

Asset Allocation Guidelines

Asset Class	Minimum %	Maximum %
Cash & Cash Equivalents	100	100

APPENDIX C - INTERMEDIATE PORTFOLIO

INVESTMENT OBJECTIVES AND ALLOCATION GUIDELINES

Time Horizon
The Intermediate Portfolio is intended for non-endowed donor funds with intermediate-term (1-5 years) spending plans.

Investment Objective
The objective of the Intermediate Portfolio is preservation of purchasing power. The portfolio may hold cash, but will primarily be invested in a combination of U.S. Government and Corporate bonds with a maximum average duration of four years, and no single security maturity greater than 10 years.

Asset Allocation Guidelines

Asset Class	Board-Approved Minimum and Maximum % (For Committee Use)	Committee-Approved Minimum and Maximum % (For Discretionary Advisor Use)
Fixed Income	50-100	50-100
Cash & Cash Equivalents	0-50	0-50

APPENDIX D - LONG-TERM PORTFOLIO

INVESTMENT OBJECTIVES AND ALLOCATION GUIDELINES

Time Horizon
The Long-Term Portfolio is intended for endowed funds and donor funds with long-term (5+ years) spending plans. Endowed funds must either be invested in the Long-Term Portfolio or the ESG Long-Term Portfolio (See Appendix E).

Investment Objective
The objective of the Long-Term Portfolio is to exceed a total rate of return of 7.0%, net of fees, while making reasonable efforts to minimize volatility and risk.

Asset Allocation Guidelines

Asset Class	Board-Approved Minimum and Maximum % (For Committee Use)	Committee-Approved Minimum and Maximum % (For Discretionary Advisor Use)
U. S. Equities	25-65	25-35
International Equities	15-35	25-35
Fixed Income	15-40	15-25
Alternatives	0-20	5-15
Cash & Cash Equivalents	0-5	0-5

APPENDIX E - ENVIRONMENTAL, SOCIAL & GOVERNANCE ("ESG") LONG-TERM PORTFOLIO

INVESTMENT OBJECTIVES AND ALLOCATION GUIDELINES

Time Horizon
The ESG Long-Term Portfolio is intended for endowed funds and endowed donor funds with long-term (5+ years) spending plans. Endowed funds must either be invested in the ESG Long-Term Portfolio or the Long-Term Portfolio (See Appendix D).

Investment Objective
The objective of the ESG Long-Term Portfolio is to exceed a total rate of return of 7.0%, net of fees, while making reasonable efforts to minimize volatility and risk. The 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.

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.)

Asset Allocation Guidelines

Asset Class	Board-Approved Minimum and Maximum % (For Committee Use)	Committee-Approved Minimum and Maximum % (For Discretionary Advisor Use)
U. S. Equities	25-65	25-35
International Equities	15-35	25-35
Fixed Income	15-40	20-35
Alternatives	0-20	0-15
Cash & Cash Equivalents	0-5	0-5

APPENDIX F – TITLE III ENDOWMENT PORTFOLIO

INVESTMENT OBJECTIVES AND ALLOCATION GUIDELINES

Background
The Title III Endowment was established in September 2012 as part of The Foundation's efforts to meet the challenge of matching available federal funds, which are to be used to provide STEM scholarships for low-income and Latino students. At the end of the 20-year grant term, the endowment will revert to the Cabrillo College Foundation Statement of Investment Policy, and the Board may approve returning a portion of the distributable percentage to the principal to be reinvested.

Time Horizon
The corpus of Title III Endowment is intended to be held in perpetuity.

Investment Objective
The investment objective of the Title III Portfolio is principal preservation and conservative growth.

Allowable Investments
Savings accounts or low-risk securities in which a regulated insurance company may invest under California law, including interest bearing accounts, money market funds, certificates of deposit, mutual funds, stocks, or bonds. The endowment may not be invested in real estate.

Asset Allocation Guidelines

Asset Class	Board-Approved Minimum and Maximum % (For Committee Use)	Committee-Approved Minimum and Maximum % (For Discretionary Advisor Use)
U. S. Equities	5-25	10-20
International Equities	5-25	10-20
Fixed Income	50-80	55-65
Alternatives (Mutual Funds)	0-5	0-5
Cash & Cash Equivalents	5-15	5-15

Spending Policy
Spendable income from the endowment shall be calculated annually as a percentage of the growth of the endowment. The maximum allowable percentage of earnings on the endowment

that may be expended annually must be in compliance with the Cabrillo College Foundation's Title III investment and spending policy and in compliance with Title III Federal guidelines. Of the allowable amount that may be expended annually, fifty percent (50%) shall be returned to the principal and reinvested, and the remaining fifty percent (50%) shall be distributed for the administrative costs and purposes designated by the donor as follows:

- Up to 1.5% Cabrillo College Foundation management fee as funds are available
- Up to 4.0% of 12 trailing quarters as funds are available after assessing the management fee

At the end of the 20-year grant term, the endowment will revert to the Cabrillo College Foundation Statement of Investment Policy. If in the best judgment of the Cabrillo College Foundation Board of Directors it is deemed wise and prudent, a portion of the distributable percentage may be returned to the principal and be reinvested. Endowment funds may be pooled with other invested assets for purposes of determining total annual return.

APPENDIX G – TITLE V ENDOWMENT PORTFOLIO

INVESTMENT OBJECTIVES AND ALLOCATION GUIDELINES

Background
The Title V Endowment was established in October 2009 as part of the Foundation's efforts to meet the challenge of matching available federal funds, which are to be used for scholarships for students. At the end of the 20-year grant term, the endowment will revert to the Cabrillo College Foundation Statement of Investment Policy, and the Board may approve returning a portion of the distributable percentage to the principal to be reinvested.

Time Horizon
The corpus of Title V Endowment is intended to be held in perpetuity.

Investment Objective
The investment objective of the Title V Portfolio is principal preservation and conservative growth.

Allowable Investments
Savings accounts or low-risk securities in which a regulated insurance company may invest under California law, including interest bearing accounts, money market funds, certificates of deposit, mutual funds, stocks, or bonds. The endowment may not be invested in real estate.

Asset Allocation Guidelines

Asset Class	Board-Approved Minimum and Maximum % (For Committee Use)	Committee-Approved Minimum and Maximum % (For Discretionary Advisor Use)
U. S. Equities	5-25	10-20
International Equities	5-25	10-20
Fixed Income	50-80	55-65
Alternatives (Mutual Funds)	0-5	0-5
Cash & Cash Equivalents	5-15	5-15

Spending Policy

Spendable income from the endowment shall be calculated annually as a percentage of the growth of the endowment. The maximum allowable percentage of earnings on the endowment that may be expended annually must be in compliance with the Cabrillo College Foundation's

Title V investment and spending policy and in compliance with Title V Federal guidelines. Of the allowable amount that may be expended annually, fifty percent (50%) shall be returned to the principal and reinvested, and the remaining fifty percent (50%) shall be distributed for the administrative costs and purposes designated by the donor as follows:

- Up to 1.5% Cabrillo College Foundation management fee as funds are available
- Up to 4.0% of 12 trailing quarters as funds are available after assessing the management fee

At the end of the 20-year grant term, the endowment will revert to the Cabrillo College Foundation Statement of Investment Policy. If in the best judgment of the Cabrillo College Foundation Board of Directors it is deemed wise and prudent, a portion of the distributable percentage may be returned to the principal and be reinvested. Endowment funds may be pooled with other invested assets for purposes of determining total annual return.