

**THE SAN DIEGO FOUNDATION  
ENDOWMENT  
INVESTMENT POLICY STATEMENT  
Effective July 2011**

**I. Statement of Purpose**

The Board of Governors of The San Diego Foundation (the Foundation) has adopted this Investment Policy Statement in recognition of its responsibility to supervise the investment of The San Diego Foundation's assets in accordance with the Foundation's goal of improving the surrounding San Diego Community. The purpose of this Policy Statement is to set forth in writing: (1) an appropriate set of objectives and goals to be attained through the investment of the Fund's assets; (2) the position of the Investment Committee with respect to the Foundation's risk/return posture, including allocation of assets, and establishment of investment guidelines; and (3) an overall system of investment policies and practices whereby the continuing financial obligation of the Foundation will be satisfied.

The conditions of this Investment Policy Statement shall apply to all Endowment assets accepted by the Foundation.

**II. Statement of Responsibilities**

It is expected that the following parties associated with the Foundation will discharge their respective responsibilities in accordance with normal fiduciary standards; (1) 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 conduct of an enterprise of a like character and of like aims, and (2) by diversifying the investments so as to minimize the risk of large losses.

- A. Investment Manager(s): Investment Managers have been retained by the Investment Committee and are charged with the responsibility to conduct day-to-day investment management of the Foundation assets in accordance with this Investment Policy Statement and all laws that supersede it. 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(s). Each investment manager managing a separate account for the Foundation must sign an investment management agreement with the Foundation.
- B. Custodian: The custodian has been retained by the Investment Committee and is charged with the responsibility for safekeeping securities, collections and disbursement, and periodic accounting statements.
- C. Investment Consultant: The Investment Consultant has been retained by the Investment Committee and is charged with the responsibility to assist the Investment Committee in developing ongoing investment policy, assisting in investment manager selection and monitoring services, and as directed by the Investment Committee, assisting the

Foundation in conducting investment activities associated with the Foundation in accordance with commonly accepted standards.

- D. Investment Committee: The Board of Governors hereby expressly delegates to the Investment Committee all of its powers under paragraphs 7.02 c of The San Diego Foundation Bylaws. Said delegation shall remain in effect until modified by the Board of Governors so long as at least two Governors are on the Investment Committee. The Investment Committee shall report to the Board of Governors at least semi-annually on investment performance results and any significant policy changes. The Investment Committee shall act in a manner that is consistent with said paragraph 7.02 c.

### III. Statement of Spending Policy

The Foundation is expected to disburse 5%, annually, of the 36-month average endowment principal market value. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all the contributions made to Endowment Principal, then distributions will be limited to interest and dividends received. In accordance with this disbursement policy, the Investment Committee is committed to: (1) protecting the corpus of the Foundation; (2) preserving the spending power of the income from the fund (3) maintaining a diversified portfolio of assets in order to meet investment return objectives while keeping the level of risk commensurate with that of the median fund in a representative foundation and endowment universe; (4) complying with applicable law.

### IV. Investment Objectives

The investment objectives for the Endowment’s total portfolio (“Total Fund”) will be for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in excess of the benchmarks established for the medium term (3 years) and long term (5 years).

#### A. Medium Term Performance Objectives

1. The Total Fund return shall exceed (net of fees) a custom Policy Index made up of the following indices and allocations:

Index	Allocation %
S&P 500 Index	22%
Russell 2000	5%
MSCI EAFE	17%
S&P Developed ex US (SM) Index	2%
MSCI Emerging Markets	8%
Barclays Universal Bond	12%
Barclays US TIPS	4%
Barclays US High Yield	3%
NCREIF ODCE Index	7%
DJ UBS Commodity Index	2.5%
NCREIF Timberland	2.5%
HFRI Fund of Funds	15%

2. The Total Fund return is to outperform the median fund in a representative foundation and endowment universe.
3. Each portfolio segment and/or Investment Manager is expected to exceed (net of fees) its respective benchmark (listed in Section VIII.A.4) as well as the median in an appropriate peer universe. Passively managed strategies will be expected to achieve their respective benchmark returns within a reasonable tracking error.

**B. Long Term Performance Objectives**

1. The Total Fund shall exceed (net of fees) the custom Policy Index defined above.
2. The Total Fund is to outperform the median fund in a representative foundation and endowment universe.
3. The Total Fund is to produce, after investment expenses, a minimum annual compound total rate of return of 5% in excess of the rate of inflation.

**V. Asset Allocation**

The following allocations of Foundation assets shall serve as the general guidelines for Foundation investments.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Minimum</b>	<b>Maximum</b>
<b>Domestic Equities</b>	<b>27%</b>	<b>15%</b>	<b>45%</b>
<i>Large Cap</i>			
<i>Mid/Small Cap</i>			
<b>International Equities</b>	<b>27%</b>	<b>15%</b>	<b>45%</b>
<i>Developed Large</i>			
<i>Developed Small</i>			
<i>Emerging Markets</i>			
<b>Fixed Income</b>	<b>19%</b>	<b>10%</b>	<b>40%</b>
<i>Core &amp; Core Plus</i>			
<i>High Yield</i>			
<i>Non-US</i>			
<i>Real Return (TIPS)</i>			
<b>Alternative Investments</b>	<b>20%</b>	<b>10%</b>	<b>25%</b>
<i>Hedge Funds of Funds</i>			
<i>Distressed Fixed Income</i>			
<i>Commodities</i>			
<i>Timber</i>			
<i>Private Equity / Venture Cap.</i>			
<b>Real Estate</b>	<b>7%</b>	<b>0%</b>	<b>10%</b>
<i>Core</i>			
<i>Value-Added</i>			
<i>Opportunistic</i>			
<b>Total</b>	<b>100.0%</b>		

The asset mix policy and acceptable minimum and maximum ranges established by the Investment Committee represent a long-term view. Rapid and significant market movements

may cause the fund's actual asset mix to fall outside the policy range. Any such divergence should be of a short-term structure.

The Board of Governors approved a maximum allocation to Alternatives, which were generally defined as Hedge Funds of Funds, Commodities, Timber, Private Equity and Venture Capital, of 25% in April 2007. In addition, the board also approved a maximum allocation of 10% to Real Estate.

## **VI. Investment Guidelines**

It is the intention of the Investment Committee to allow each Investment Manager full investment discretion within the scope of these mutually agreed upon investment guidelines. Each separate account investment manager must adhere to the following investment guidelines as well as their specific guidelines in the appendix unless explicitly advised in writing by the Investment Committee. In certain instances the Investment Committee may elect to invest in Funds such as (but not limited to) commingled trusts, limited partnerships or mutual funds. In these cases, the investment guidelines set forth in the Fund's prospectus, offering memorandum or agreement will govern. The Investment Committee will take care in selecting Funds with guidelines appropriate for the foundation and review them periodically. Guidelines for Investment Managers of separately managed accounts will be maintained in the Appendix of this Policy Statement and may be approved by the Chief Investment Officer and Chair of the Investment Committee.

- A. **Types of Securities:** The equity securities shall be domestic or foreign common stocks, preferred stocks, convertible preferred stocks. The fixed income securities shall be comprised of U.S. Treasuries, agencies of the United States Government, domestic and international corporations, domestic banks, other U.S. financial institutions, and other sovereign government issues.
- B. **Diversification:** The equity and fixed income portfolios should be well diversified to avoid undue exposure to any single economic sector, industry, or individual security. No more than 5% of an investment manager's portfolio based on market value shall be invested in the securities of any one issuer other than fixed income pools of investments such as U.S. Governments or U.S. Government Agencies. Except U.S. Treasuries, no more than 10% of a fixed income portfolio based on market value shall be invested in securities of any one issuing corporation at the time of purchase.
- C. **Prohibited Activities/Investments:** The Investment Committee at the aggregate portfolio level may not undertake the following investment activities without prior approval of the Board of Governors:
  - 1. Short Sales.
  - 2. Margin purchase or other use of lending or borrowing.
  - 3. Investment in unregistered or restricted stocks.
  - 4. Investment in direct commodities, leveraged derivatives (e.g. floaters, inverse floaters, etc.), Warrants, options or futures.
  - 5. Securities lending.

It is understood that some investment managers will undertake many or all of the above activities as it is deemed appropriate for their investment strategy.

- D. Trading and Execution: The Investment Manager(s) shall use their best efforts to obtain best execution of orders through responsible brokerage firms at the most favorable prices and competitive commission rates.
- E. Liquidity: The Investment Committee delegates to staff to monitor the cash flow on a regular basis, and sufficient liquidity shall be maintained to fund payment outflows. When withdrawals become necessary, the staff will notify the Investment Manager(s) as far in advance as possible to allow them sufficient time to build up necessary liquid reserves.
- F. Commingled Funds / Trusts / Mutual Funds: Any funds must provide monthly reports regarding performance and provide an investor letter at least on quarterly basis. Funds other than 1940 Act Mutual Funds must provide an independent audited financial statement at least annually.
- G. Hedge Funds of Funds: A hedge fund of funds should have no less than ten investment managers and no more than 15% of the fund invested in any single investment manager. An independent auditing firm will audit the Fund at least on an annual basis. Each fund will provide monthly reports regarding performance and provide an investor letter at least on a quarterly basis. Each fund should have significant corporate infrastructures established so that the monitoring and implementation of the fund is not solely dependent on one individual. The use of leverage is allowed but should be used in a manner consistent with the fund's objective of low volatility and diversification. In a multi-manager approach, leverage shall be evaluated on a collective basis, rather than on a manager-by-manager basis.

## **VII. Asset Allocation and Rebalancing Procedures**

- A. Diversification by Asset Class: The Investment Policy Statement provides for an overall long-term strategic allocation. The Investment Committee on an annual basis will evaluate the allocation's continued appropriateness, and on a bi-annual basis will engage in an asset allocation study with the assistance of the Consultant.
- B. Diversification by Style & Manager: The Investment Committee will strive to ensure that the portfolio is adequately diversified across investment styles such as growth and value equities, and further by Investment Manager. With the exception of passive strategies, no Investment Manager should manage more than 25% of the overall Endowment fund.
- C. Rebalancing Procedures: Where possible the target allocations will be maintained through new cash flows. It will be the responsibility of the staff to direct these cash flows to the appropriate managers. The portfolio will be reviewed for rebalancing on a quarterly basis, the month prior to the quarter end. The Chief Financial Officer or Chief Investment Officer will determine the necessity of transactions based upon the criteria outlined above. The determination will be reviewed by the investment consultant and/or the Investment Committee Chairperson for reasonableness prior to execution by the Chief Financial Officer or Chief Investment Officer.

The Investment Committee may rebalance the portfolio back to target allocations at its periodic meetings. The Chief Financial Officer or Chief Investment Officer will issue instructions to the custodian, with copies to the affected managers and to the investment consultant.

## VIII. Investment Monitoring and Evaluation

### A. Criteria for Evaluation

1. **Time Horizon:** Each investment manager has accepted an assignment that requires him or her to earn a net-of-fees return in excess of the appropriate benchmarks. Passively managed funds are expected to meet the benchmark's return.
2. **Quantitative Measures:** The consultant will provide calculation of time-weighted rates of return, performance benchmarks and other analytical measures conforming to the Investment Management Consultants Association (IMCA) Consultant's Reporting Standards for the overall portfolio and each individual manager.
3. **Investment Style:** Equity managers are hired on the basis of an investment style, growth or value, within a specified capitalization range. If a manager is found by quantitative measures to have moved into securities that cause the overall weighted portfolio to move into a capitalization area, i.e., large to mid-cap, or into a style, i.e., growth to value, that is not authorized, the manager will be instructed to correct this situation or face termination.
4. **Manager performance** will be measured against an appropriate style index (net of fees) and our consultant's peer universes. The index benchmarks are:

<u>Equities</u>		<u>Fixed &amp; Other</u>	
<u>Asset Class</u>	<u>Index</u>	<u>Asset Class</u>	<u>Index</u>
Large Core	S&P 500	Core Fixed	Barclays Universal
Small Core	Russell 2000	TIPS	Barclays US TIPS
International Large	MSCI EAFE	Real Estate	NCREIF Property Index
International Small	S&P Developed ex US (SM) Index	Timber	NCREIF Timber Index
Emerging Markets	MSCI Emerging	Hedge Funds of Funds	HFRI Funds of Funds Index
		Commodities	DJ AIG Commodity Index

### B. Manager Watch List

1. **Performance Criteria:** Managers will be placed on the "watch list" after any four consecutive quarters of underperformance - as measured by their appropriate style index(es) or any twelve-month period in which the manager is in the bottom quartile of their peer universe. After three years as a manager for the Foundation the 3-year rolling performance will become the primary measure of performance. After that point, any rolling three-year period of less than median performance will cause the manager to be placed on the list.
2. **Notification and Remedy:** The manager placed on the list will be notified in writing of the Investment Committee's concern over performance. Our consultant will make

this notification. The manager will be expected to remedy the deficiency within the next two quarters or be considered for termination.

3. Organizational Changes (minor impact): For any organizational change involving change of ownership, our consultant will note change in corporate management or portfolio management staff. The consultant will report these changes to the Investment Committee and should be prepared to evaluate the impact of any such changes. The consultant and Committee will jointly determine whether the manager will be placed on the watch list or be subject to termination. The investment manager may be called before the Committee to discuss changes.

C. Immediate Terminations

The following issues are causes for immediate termination of an investment manager's contract:

1. Organizational risks or changes (major impact), i.e., fraud or loss of portfolio management team
2. Style/capitalization drift not corrected in a timely manner
3. Client service problems
4. Market timing (excessive cash position)
5. Violation of Investment Policy Guidelines

**THE SAN DIEGO FOUNDATION  
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APPENDIX**

**LAST UPDATED & APPROVED BY CHIEF INVESTMENT OFFICER & CHAIR OF  
INVESTMENT COMMITTEE: July 2011**

**COLLECTIVE FUNDS**

The following commingled funds, trusts and mutual funds are governed by their specific offering memorandum or prospectus:

<b>Investment Manager</b>	<b>Fund Name</b>	<b>Inception of TSDF's Investment</b>
State Street Bank & Trust Company	S&P 500 Index Common Trust Fund	9/4/2003
State Street Bank & Trust Company	Russell Small Cap Completeness Index Trust	11/8/2010
Capital Research & Management / American Funds	EuroPacific Growth Fund	5/20/1996
Dimensional Fund Advisors (DFA)	DFA International Value	8/1/2007
Grantham, Mayo, Van Otterloo & Co. (GMO)	GMO International Small Companies III	9/2/2003
Dimensional Fund Advisors (DFA)	DFA Emerging Markets Value	8/1/2007
Dodge & Cox	Dodge & Cox Income	7/13/2010
Reams Asset Management	Scout Reams Core Plus	6/28/2002
JP Morgan	JP Morgan High Yield Fund	8/27/2009
State Street Bank & Trust Company	SSGA TIPS Index Fund	6/29/2009
Archstone Partnerships	Archstone Partners	1/31/2002
Alternative Investment Group	Alternative Investments Inst'l, Ltd.	4/1/2008
Pacific Investment Management Co.	PIMCO Distressed Mortgage Fund	10/31/2007
Pacific Investment Management Co.	PIMCO Distressed Senior Credit Securities	7/31/2008
Pacific Investment Management Co.	PIMCO Distressed Credit Fund	7/12/2010
Audax Group	Audax Mezzanine Fund III	2/14/2011
RREEF	RREEF America II	9/30/2004
Penn Square	Penn Square I	12/31/2007
Penn Square	Penn Square II	2/3/2010
Goldman Sachs	Goldman Sachs Whitehall Fund	5/26/2008

TA Associates	TA Associates Fund IX	4/24/2010
Hancock Timber Resource Group	Hancock Timber Fund	9/30/2005
Credit Suisse Asset Mgmt	CSAM Commodity	7/12/2010
State Street Bank & Trust Company	SSGA Prime Money Market (sweep)	n/a

## SEPARATE ACCOUNTS

The following Investment Managers have discretion over separately managed accounts which will be governed by the Investment Management Agreement and the attached guidelines which must be signed by an authorized representative of the Investment Manager and the Chief Investment Officer of The San Diego Foundation:

<b>Investment Manager</b>	<b>Strategy Name</b>	<b>Inception of TSDF's Investment</b>
None		