

**THE SAN DIEGO FOUNDATION
NON-ENDOWMENT FUNDS
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 Non-Endowment Advised Funds accepted by the Foundation.

The Foundation's Non-Endowment Advised Funds have been designed to provide liquid investments for future grant making that meet a variety of time horizons from the inception of each account. Three separate pools have been established to meet the unique liquidity and time horizon needs of fund advisors. Each pool is comprised of underlying funds representing various asset classes invested according to the target allocation of each pool.

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: 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. Investment Objectives

The Foundation's Non-Endowment Advised Funds are established as three Pools with distinct return and risk objectives:

Pool A: Designed to be a Short Term pool, with emphasis on capital preservation and moderate yield, appropriate for donors expecting to grant funds in the immediate future and/or have a very low risk tolerance.

Pool B: Designed to be a Medium Term pool, with emphasis on capital preservation with some potential for capital appreciation, appropriate for donors expecting to grant funds in the intermediate term (3-5 years) and willing to tolerate moderate levels of risk in order to get a enhanced rate of return (versus Pool A) over a full market cycle of three to five years.

Pool C: Designed to be a Long Term pool, with emphasis on capital appreciation and income, appropriate with donors expecting to grant funds over a longer time horizon and willing to tolerate higher levels of risk to get market-like returns.

The return objectives for the Pools 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 both the medium term (3 years) and long term (5 years).

Pool A

1. Meet or exceed the return of U.S. 90 Day T-bills
2. Meet or exceed the median return in a representative cash universe

Pool B

1. Meet or exceed the return of a custom index made up of 15% Russell 3000 Index, 15% MSCI ACWI All Country ex-US, 35% Barclays Capital Aggregate Bond Index, 15% Barclays Capital US TIPS and 20% 90 Day U.S. T-Bills
2. Exceed the median return of a representative conservative balanced fund universe

Pool C

1. Exceed the return of a custom index made up of 31% Russell 3000 Index, 34% MSCI ACWI All Country ex-US Index, 27% Barclays Capital Aggregate Bond Index, and 8% Barclays Capital US TIPS Index.
2. Exceed the median return of a representative balanced universe

IV. Asset Allocation

Pool A: Target asset allocation of 100% in a money market funds and/or short-term fixed income securities.

Pool B: Target asset allocation as follows:

Asset Class	Target Allocation	Minimum	Maximum
Domestic Equities	15%	10%	20%
<i>Large Cap</i>			
<i>Mid/Small Cap</i>			
International Equities	15%	10%	20%
<i>Developed Large</i>			
<i>Developed Small</i>			
<i>Emerging Markets</i>			
Fixed Income	40%	25%	50%
<i>Core & Core Plus</i>			
<i>High Yield</i>			
<i>Non-US</i>			
<i>Real Return (TIPS)</i>			
Alternative Investments	10%	0%	20%
<i>Absolute Return Funds</i>			
<i>Commodities</i>			
<i>REITS</i>			
Cash	20%	10%	30%
Total	100.0%		

Pool C: Target asset allocation as follows:

Asset Class	Target Allocation	Minimum	Maximum
Domestic Equities	31%	20%	40%
<i>Large Cap</i>			
<i>Mid/Small Cap</i>			

International Equities	34%	20%	40%
<i>Developed Large</i>			
<i>Developed Small</i>			
<i>Emerging Markets</i>			
Fixed Income	30%	10%	40%
<i>Core & Core Plus</i>			
<i>High Yield</i>			
<i>Non-US</i>			
<i>Real Return (TIPS)</i>			
Alternative Investments	5%	0%	15%
<i>Absolute Return Funds</i>			
<i>Commodities</i>			
<i>REITS</i>			
Cash	0%	0%	5%
Total	100.0%		

V. Investment Guidelines

The various asset classes that comprise the different allocations will be represented by a commingled or mutual fund to provide the advisors the greatest degree of liquidity. Each mutual fund or commingled fund will be governed by its offering memorandum or prospectus. Each fund's investments are expected to remain consistent with the latest prospectus or offering memorandum. Should the current prospectus/memorandum materially change, it is the responsibility of the investment manager to immediately inform the Foundation Investment Committee via a revised prospectus or offering memorandum.

Within the Money Market Fund category, US Treasury, Government and high quality Prime funds are allowed. Funds must meet all Rule 2a-7 guidelines as published under the Investment Company Act of 1940. Weighted average maturities must be below 90 days. Income must be distributed at least monthly. The Chief Investment Officer may use discretion in allocating the "Cash" asset class in Pools A and B across a list of money market funds approved by the Investment Committee. For Pool A, the amount invested in any one Money Market Fund should not exceed the greatest of 25% or \$20,000,000 of total Pool A assets. For Pool B, the amount invested in any one Money Market Fund should not exceed the greatest of 10% or \$10,000,000 of total Pool B assets.

The Chief Investment Officer and/or Investment Committee may instruct the custodian bank to hold securities outside of these guidelines on a non-discretionary basis from time-to-time.

VI. Rebalancing Procedures

Staff will take efforts to rebalance each of the pools on a monthly or quarterly basis (as mutual fund redemption restrictions allow) back to the asset allocation targets. Staff may also instruct the custodian to administer regular rebalancing practices.

VII. Investment Monitoring and Evaluation

The Investment Committee, Staff and Consultant will utilize the following criteria for evaluation of the Pool's Investments:

- A. 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.
- B. 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.
- C. Investment Style: Equity funds are selected on the basis of an investment style, growth or value, within a specified capitalization range. If a fund 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 committee will address whether the fund should be replaced with a more appropriate fund.
- D. Individual fund performance will be measured against an appropriate style index (net of fees) and our consultant's peer universes.

**THE SAN DIEGO FOUNDATION
NON-ENDOWMENT FUNDS
INVESTMENT POLICY STATEMENT
APPENDIX**

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

COLLECTIVE FUNDS

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

Investment Manager	Fund Name	Pool A	Pool B	Pool C
State Street Bank & Trust	S&P 500 Index Common Trust		x	x
The Vanguard Group	Small Cap Index Fund		x	x
Capital Research & Mgt.	EuroPacific Growth Fund		x	x
Dimensional Fund Advisors	DFA International Value		x	x
Dimensional Fund Advisors	DFA Emerging Markets Value		x	x
Pacific Investment Mgmt. Co.	PIMCO All Asset Fund		x	x
Reams Asset Management	Scout Reams Fixed Income		x	x
Loomis Sayles	Loomis Sayles Fixed Income Fd.		x	x
Dodge & Cox	Dodge & Cox Income Fund		x	x
Credit Suisse	CSAM Commodity Return Fund		x	x
The Vanguard Group	Vanguard Inflation Protected Sec		x	x
Pacific Investment Mgmt. Co.	PIMCO Low Duration Inst'l		x	
State Street Bank & Trust	SSGA Prime Money Market Fund	x	x	
Dreyfus	Dreyfus Cash Management Fund	x		
Fidelity Investments	Fidelity Prime Money Mkt Fund	x		
Goldman Sachs Asset Mgt.	Financial Square MM Fund	x		
JP Morgan Asset Mgt.	JP Morgan Liquid Asset Fund	x		

All funds custodied at State Street Bank.