ELK GROVE COMMUNITY FOUNDATION
INVESTMENT POLICY

I. STATEMENT OF PURPOSE:

The purpose of this investment policy is to establish a clear understanding regarding Elk Grove Community Foundation's investment objectives, goals and guidelines. It is to create a framework for a well-diversified asset mix that can be expected to generate long-term returns at a level of risk suitable to the Board of Directors of the Elk Grove Community Foundation. It is intended to provide meaningful guidance in the management of Portfolio assets and not be overly restrictive given the changing economic, and investment market conditions.

This document shall be reviewed on a periodic basis, at least annually, and any modifications incorporated into the current investment portfolio in a prudent time frame.

II. INVESTMENT OBJECTIVES:

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. *Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. <u>Credit Risk</u>

The [entity] will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section V of this Investment Policy
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. <u>Interest Rate Risk</u>

The [entity] will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

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2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds which offer same-day liquidity for short-term funds.

3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

III. INVESTMENT GOAL:

Based on the investment objectives stated above, the primary goal of the Portfolio is: To equal or exceed the return of a balanced index comprised of the Standard and Poor’s stock index (S&P 500), Shearson Lehman (Intermediate) Government/Corporate bond index (SLGC) and Treasury Bills (T-Bills) in similar proportion of the Foundation’s asset mix.

IV. INVESTMENT GUIDELINES:

A. General:

Investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere.

Subject to the limitations stated herein the Account Manager is given full investment discretion consistent with the investment objectives and guidelines of this Portfolio. The Account Manager, with approval from the President, Treasurer and Finance Committee Chair, shall have full discretion regarding the purchase and sale of Portfolio investments in order to assure full flexibility in the management of the Portfolio.

Realization of capital gains and losses should be viewed solely in terms of investment merits.

All assets selected for the Portfolio must have a readily available market value and be marketable.

B. Equity Investments:

The Equity portion of the Portfolio will consist of mutual funds and or securities as outlined within the list of “Suitable and Authorized Investments” outlined below and should be well diversified to avoid undue exposure to any single economic sector, industry group, or individual security. Mutual funds shall consist of liquid, mainstream funds that are invested in financially

sound, stable companies with minimal risk.
C. Fixed Income Investments:
The Fixed Income portion of the Portfolio should be well diversified to avoid undue exposure to any single segment of the economy or individual issuer. Fixed income investments shall consist of investments as outlined within the list of "Suitable and Authorized Investments" outlined below.
D. Short-Term Investment:
Short Term Investment shall consist of individual cash equivalent securities such as cash insured in bank, FDIC Institutions, U.S. Treasuries, and U.S. Agencies or money market funds. The primary function of Short Term investments is to meet the cash needs (scholarship payouts) of the foundation.

V. Suitable and Authorized Investments

1. *Investment Types*
Consistent with the Policy Statement, the following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Canadian government obligations (payable in local currency);
- Certificates of deposit and other evidences of deposit at financial institutions,
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of state, provincial and local governments and public authorities;
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities;
- Common stock of U.S. companies that are either listed on the New York or American Stock Exchange or are traded in over-the-counter markets;
- Preferred stock;
- Convertible securities;
- ADRs/ADSs, which are receipts typically issued by an American bank or trust company that evidences ownership of underlying securities issued by a foreign issuer. ADRs/ADSs may not necessarily be denominated in the same currency as the securities into which they may be converted;
- Shares of open-end investment companies (mutual funds) that meet the above stated guidelines and are consistent with the overall objective;
- Shares of open-end investment companies (mutual funds) that invest in the common stock, preferred stock or convertible securities of companies not domiciled in the United States that are consistent with the overall objective; and

- Investment in derivatives of the above instruments shall require authorization by the appropriate governing authority.

VI. INVESTMENT PERFORMANCE REVIEW:

1. *Methods*

The investment officer shall submit quarterly an investment report that summarizes recent market conditions, economic developments and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics and other features. The report shall explain the quarter's total investment return and compare the return with expectations. Each quarterly report shall indicate any areas of policy concern and suggested or planned revision of investment strategies.

Within 40 days of the end of the fiscal year, the investment officer shall present a comprehensive annual report on the investment program and investment activity. The annual report shall include 12-month comparisons of return and shall suggest policies and improvements that might be made in the investment program.

2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

VII. PORTFOLIO MANAGEMENT:

The Board of Directors with input from the Finance Committee Chair shall be responsible for selecting and evaluating the Account Manager. The Account Manager shall be a non-board member who has the appropriate background, licensing, stability, ethics and E & O coverage. Should the performance of the Account Manager fail to meet the expectations of the Board of Directors they may select a new Account Manager. During such a change, it is important to minimize costs involved in converting the portfolio to a new Account Manager.

VIII. SUMMARY:

It is expected that the Account Manager will manage the assets so that the results will meet the objectives and goals as set forth in this statement.
This statement is intended to be used as a guideline rather than a rigid statement of policy from which there can be no deviation. However, if it is anticipated that any deviations need occur, the Finance Committee and the Elk Grove Community Foundation's Board of Directors must approve those deviations or changes in policy.

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