



SANTA BARBARA  
FOUNDATION

**SANTA BARBARA FOUNDATION**

INVESTMENT POLICY STATEMENT

Presented  
June 6, 2024

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## **I. Introduction and Purpose**

This Statement of Investment Policy is set forth to:

- Define the investment policies, guidelines and objectives governing the various assets for which the Foundation is responsible.
- Create a framework from which the Investment Committee can evaluate performance, explore new opportunities, and make recommendations to enhance the investment portfolio.
- Provide guidance for, expectations of, and limitations on, all parties bearing investment responsibilities for the Foundation.
- Ensure at all times that the Foundation's assets are managed according to applicable laws, standards of fiduciary responsibilities and in accordance with prudent investment practices.

The intent of this Statement is to design an investment strategy with specific parameters that reflect the philosophy of the Board, thereby providing the Investment Committee with clearly defined policies and objectives. Although these policies and objectives are intended to govern the investment activity, they are designed to be sufficiently flexible in order to be practical.

Whenever possible, all Funds of the Santa Barbara Foundation (*the "Foundation"*) available for investment, including endowments, shall be placed in a common pool to be known as the Foundation's Long-Term Endowment (*the "Endowment"*). If funds are identified to entail a specific investment or spending requirement different from the Endowment, those funds shall be placed in an appropriate "*subaccounts.*" The subaccounts include gift annuities, charitable remainder trusts, Focus Growth Blend, Focus Income Blend, SRI, Capital Preservation, pooled income funds, and other donor-advised accounts.

The Foundation is responsible for all assets in the Endowment and the subaccounts. To the extent that the Foundation identifies different objectives and chooses different policies for particular assets, each portion of the total assets having a separate objective or policy shall be termed a "*subaccount.*" Specific Endowment and subaccount objectives, policies, and guidelines are contained in separate Appendices to this Policy.

Any revisions to this document may be made only with the approval of the Board of Trustees of the Foundation.

## **II. Santa Barbara Foundation Goals**

The Santa Barbara Foundation was established to "facilitate the building of philanthropy, strengthen the nonprofit sector, and identify and strategically address important community opportunities and needs. The Foundation's assets are structured to provide growth from capital gains and income, while making charitable contributions in perpetuity.

### III. Responsibilities of the Foundation Representatives

#### A. The Board of Trustees

- The Board of Trustees (*the "Board"*), ultimately, is responsible for making the decisions that affect the Foundation's Long-Term Endowment and subaccounts. The Board receives information and recommendations from the Investment Committee (*the "Committee"*).
- The Board is responsible for approving the Asset Allocation Policy, which includes approving broad asset allocation ranges, and the investable asset classes. The Asset Allocation Policy is, arguably, the most important decision made by the Board with regard to the Endowment or subaccounts.
- The Board is required to establish and approve the Investment Policy Statement and periodically review that statement, either annually or following changes made to the Foundation, for continued accuracy and completeness;
- The Board retains sole authority to hire and fire the Investment Consultant.

#### B. The Investment Committee

The Committee has the responsibility to ensure that the assets of the Foundation are managed in a manner that is consistent with the policies and objectives of the Long-Term Endowment and the subaccounts. In so doing, the Committee will comply with all applicable laws.

The Committee members are required to discharge their duties solely in the interest of the Endowment and all subaccounts and for the exclusive purpose of meeting the financial needs of the Foundation. The Committee is authorized to engage the services of Investment Managers who possess the necessary specialized research facilities and skill to meet the investment objectives and guidelines of the Long-Term Endowment and all subaccounts. The Committee will require the Investment Managers to adhere to any policies adopted by the Board.

The Committee's responsibilities include:

- Reviewing recommendations from the Investment Consultant,
- Recommending investment policy for Board approval,
- Reviewing and recommending Investment Consultants and other Advisors for Board approval,
- Developing investment policy guidelines,
- Developing investment objectives and performance measurement standards that are consistent with the financial needs of the Foundation,
- Recommending the Policy Asset Allocation targets and ranges,
- Approving rebalancing strategies that conform to the approved Policy Asset Allocation ranges.

- With the assistance of the Investment Consultant, prudently select investment strategies, monitor the strategies, and the performance of the accounts under management, and implementing corrective action as needed,
- Reviewing and evaluating investment results in the context of predetermined performance standards, and implementing corrective action as needed,
- Reviewing all investment, record keeping, and administrative expenses associated with the Endowment and the subaccounts,
- Reporting to the Board,
- Provide information as needed on Spending Policy Guidelines to the Finance Committee,
- Reviewing and recommending approval of all investment relationships for all accounts managed apart from the Endowment or subaccounts to the Board.

And as resolved by the board:

- Terminating the services of investment managers and hiring investment managers without Board approval, provided those decisions adhere to the Board-approved Policy Asset Allocation and all other requirements for investment managers as set forth in this Investment Policy Statement.

### **C. The Investment Consultant**

The Investment Consultant is expected to be proactive in recommending changes in investment strategy, asset allocation, and investment managers if the situation warrants change. The Investment Consultant's responsibilities are as follows:

- Assisting in the development of investment policies, objectives, and guidelines,
- Preparing asset allocation analyses as necessary and recommending asset allocation strategies with respect to the Long-Term Endowment's and subaccounts' objectives under their review,
- Recommending Investment Managers (including search and selection),
- Preparing and presenting performance evaluation reports in accordance with Association of Investment Management and Research promulgated standards,
- Attending Committee meetings to present evaluation reports on a quarterly basis and at other meetings on an "as needed" basis,
- Conducting Investment Manager evaluations, searches and selection
- Reviewing asset classes or investment strategies that complement existing asset classes or strategies to be considered by the Committee,

- Communicating investment policies and objectives to the Investment Managers, monitoring their adherence to such policies and reporting all violations,
- Assisting the Committee in special tasks,
- Notifying the Committee immediately of any litigation or violation of securities regulations in which any Investment Manager is involved,
- Notifying the Committee of any significant changes in portfolio managers, personnel or ownership of any investment management firm,
- Assisting in the rebalancing of the portfolios,
- Evaluating the Long-Term Endowment and all subaccounts under their review by conducting investment performance measurement and analysis.
- Providing research on specific issues and opportunities, and

The Investment Consultant will be reviewed on an annual basis and evaluated upon the following additional criteria:

- Ability to meet or exceed the performance objectives stated in the Appendices related to the Long-Term Endowment and the subaccounts for which the Consultant has been engaged to advise.
- Adherence to the philosophy and style, which were articulated to Committee, or Board at, or subsequent to, the time the investment advisor were retained.
- Continuity of personnel and practices at the firm.

The Investment Consultant shall immediately notify the Committee or staff in writing of any material changes in its investment outlook, strategy, portfolio-structure, ownership or senior personnel.

#### **D. The Foundation Staff**

The Foundation Staff shall assist the Committee in execution of its decisions and work with the Investment Consultant to monitor the Foundation's portfolio and its Investment Managers. The specific duties and responsibilities of the Foundation Staff include:

- Manage, monitor, and regularly review all aspects of the business relationship with all service providers;
- Provide input on investment matters including asset allocation issues, Investment Manager hiring, and performance reviews;
- Coordinate all investment activity such as portfolio rebalancing, subscription documents, distributions and capital calls; and
- Manage portfolio operations including manager reporting, cash management, and compliance-related issues.

## **E. The Custodian Bank**

- Providing timely reports detailing investment holdings and account transactions monthly to the Foundation and Investment Consultant.
- Providing an annual summary report to the Foundation and the Investment Advisor within 30 days following each fiscal year end. The report will include the following:
  - Statement of all property on hand,
  - Statement of all property received representing contributions to all accounts,
  - Statement of all sales, redemptions, and principal payments,
  - Statement of all spending from all accounts,
  - Statement of all expenses paid,
  - Statement of all purchases, and
  - Statement of all income.
- Establishing and maintaining accounts for Investment Managers,
- Preparing additional accounting reports as requested by the Foundation, Board, Committee, or Investment Consultant.
- Cash management, including daily sweep of idle cash, interest and dividend collections, coordinating cash availability for working capital drawdowns based on instructions from the Foundation Staff;
- Processing of Investment Manager transactions;
- Monitoring and processing and/or reporting applicable class action settlements;
- Accounting for separate account Investment Manager transactions, holdings, and pricing;
- Working with the Investment Consultant, Investment Managers, and the Foundation Staff to ensure accuracy in reporting;
- Researching transaction information as requested by the Foundation Staff;
- Notifying Investment Managers of proxies, tenders, rights, fractional shares or other dispositions of holdings;
- Safekeeping of any securities held physically;
- Accepting instruction from the Foundation Staff; and
- Disbursement of all income or principal cash balances as directed by the Foundation Staff.



## **F. Investment Managers**

Investment Managers are expected to pursue their own investment strategies within the performance guidelines created for individual managers in accordance with the Foundation selection criteria. It is expected that the Foundation's assets will be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of Foundation assets, all in accordance with UPMIFA and other applicable law. Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Long-Term Endowment and the subaccounts.

The Investment Managers' responsibilities are as follows:

- Investing assets under their management in accordance with agreed upon guidelines and restrictions or as detailed in the Investment Management Agreement or Prospectus,
- Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions,
- Responding to funding requests within mutually agreed upon timelines,
- Providing written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a monthly or quarterly basis in addition to other information as requested by the Committee or Investment Advisor,
- Voting proxies for the assets under management (companies held within the portfolio) in the best interest of the Santa Barbara Foundation,
- Meeting with the Committee, Foundation Staff, and the Investment Consultant upon request;
- Initiating communication with the Committee and Foundation Staff when the Investment Manager believes that the current guidelines or this Policy Statement is inhibiting and/or should be altered, and
- Annually providing to the Foundation either a copy of the investment advisor's form ADV Part II (SEC required disclosure document), a copy of the investment company's annual report, and/or a copy of the fund's updated prospectus (SEC requirement at the end of the fiscal year).

Investment Managers (via contract with the Foundation), may engage in securities lending, or the "loan" of the Foundation's securities in return for interest, to broker dealers as a means of enhancing income.

The Trustees have delegated the responsibility of voting all proxies to the investment managers. The Trustees expect that the managers will execute all proxies in a timely

fashion. Also, the Trustees expect the managers to provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions.

#### **IV. Investment Objectives**

The investment strategy of the Santa Barbara Foundation is designed to ensure the prudent investment of funds in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss. The specific objectives of the Long-Term Endowment and subaccounts are described in Appendix B through J.

##### **A. Risk Objectives**

The Committee further believes that the greatest investment risk the Santa Barbara Foundation faces in managing all of its investible assets is the probability of failing to meet the objectives over the Time Horizon. To meet those objectives over the Time Horizon the Committee shall,

- Accept a level of market risk consistent with moderate interim volatility without sacrificing the potential for long-term real growth of assets,
- Use extensive diversification to minimize exposure to company and industry-specific risks in the aggregate investment portfolio.
- Avoid extreme levels of volatility that could adversely affect the Foundation's beneficiaries.

Additionally, the following variables should be considered by the Committee in all aspects of the decision-making process with regard to the Santa Barbara Foundation's investable assets:

- *Probability of missing the objective*
- *Impact of inflation*
- *Asset/style allocation as the primary determinant of long-term performance*

##### **B. Return Objective**

The Return Objectives for the Account and subaccounts are detailed within Appendices A through I. The Committee's overall return objective is to achieve the highest real return possible within the risk constraints outlined above.

#### **V. Investment Constraints**

##### **A. Legal and Regulatory**

The Trustees intend for the assets of the Santa Barbara Foundation to be at all times invested in accordance with the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Trustees will retain legal counsel when appropriate to review contracts and provide advice with respect to applicable statutes and regulations.

## **B. Time Horizon**

The Foundation will be managed on a going-concern basis. The assets of the Foundation will be invested with a long-term time horizon (twenty years or more), consistent with the purpose of the Foundation.

## **C. Liquidity**

The Long-Term Endowment and subaccounts will maintain different levels of liquidity to align with the stated objectives and constraints.

Further, the Trustees intend to invest no more than 30% of the Long-Term Endowment's assets in illiquid vehicles.<sup>1</sup>

## **D. Tax Considerations**

The Foundation is a tax-exempt entity. Therefore, investments and strategies will be evaluated on a basis that is indifferent to taxable status, except where the prospect of Unrelated Business Taxable Income (UBTI) is a concern.

## **VI. Total Return Policy**

The Board has adopted a "total return" approach to calculating investment returns. The Committee recognizes that total return is comprised of both traditional "income" and realized and unrealized net capital gains.

In recognition of these facts, the Committee has determined to consider the total return from both income and net realized and unrealized capital gains when recommending the Spending Rate Policy. When distributions are made, they will be withdrawn regardless of the portion of the total return that is from capital gains or from income.

## **VII. Spending Policy**

### **Sources of Spending**

The Committee recognizes both the short-term need of the Long-Term Endowment for annual income from the investment portfolio, and the long-term need for maintenance and growth of the Endowment's purchasing power. As a result, the Board may appropriate for expenditure in any year for the uses and purposes for which the Endowment is established so much of the net appreciation, realized and unrealized, in the fair market value of the investment portfolio over the historic dollar value of the investment portfolio as is prudent. This amount shall include any extra disbursement made by the Board in recognition of market conditions. The Spending Rate Policy, as well as the Spending Rate, may differ among the Long-Term Endowment and subaccounts due to the various purposes and time horizons of each investment pool.

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<sup>1</sup> Illiquid vehicles are defined as those vehicles that do not allow withdrawals to occur on at least a monthly basis.

## **Spending Rate**

The Committee recognizes that recommending a Spending Rate equal to the Long-Term Endowment's total returns each year will doom the Endowment to declining real values, due to the effects of inflation and costs of investment management. The Spending Rate will be reviewed at least annually in light of evolving trends with respect to investment returns and the rate of inflation. Adjustments will be made when appropriate.

### **Spending Rate for unrestricted funds**

The current maximum spending rate to distribute for grant making and administration is an amount equal to 4.5% of the average fund balance. The average fund balance is calculated using the daily average market values of the prior 3 years as of June 30 of each year.

### **Spending Rate for restricted funds**

The annual cash payout for grant making of all restricted funds invested in the long term endowment portfolio will be 4.0% of the average fund balance unless otherwise stated in the fund documents. The average fund balance is calculated using the daily average fund balance of the prior 3 years as June 30 of each year. If a fund has been in existence for less than 3 years, the average of all available days is used.

The amount available to grant is applied during the 1st quarter of the next calendar year.

## **VIII. Risk and Return Considerations**

The Trustees of the Santa Barbara Foundation recognize that a persistent positive relationship exists between risk and return, whether risk is described as possibility of loss or as interim volatility. The Trustees also recognize that investors are rarely compensated for risks that can be mitigated through diversification. Within the risk and return parameters discussed above, the Trustees accept the risks associated with investing in the capital markets (market risks) but will minimize wherever possible those risks for which the Foundation is unlikely to be compensated (non-market or diversifiable risks).

## **IX. Diversification**

The Trustees of the Santa Barbara Foundation recognize that a primary element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for the expected correlation of their returns. Within each asset type, investments will be distributed across many individual holdings, thus further reducing volatility. In addition, each investment manager's guidelines will specify the largest permissible investment in any one asset, and will set other diversification requirements.

## **X. Active vs. Passive Management**

The Committee shall continue to review the relative advantages of passive versus active investment management in the context of reduced management expenses, stable performance and constant, complete exposure to the particular asset class with regard to the excess return provided by the individual manager.

## **XI. Asset Allocation**

The Board-approved Policy Asset Allocations, are presented in **Appendix B through J**, and are designed to give balance to the overall structure of the Foundation's investment program over the Time Horizon.

The Target Asset Allocation shall be determined based on a comprehensive asset allocation study completed by the Investment Consultant and reviewed in depth by the Committee from time to time, but not less than every three years. However, some factors may impact the Target Asset Allocation, thereby requiring an asset allocation review and possible rebalancing. Some of these factors include:

- The Committee's assessment of the intermediate or long-term outlook for different types of asset classes and styles,
- The Investment Consultant's assessment of the intermediate or long-term outlook for different types of asset classes and styles and,
- Divergence in the performance of the different asset classes and styles.

The Trustees recognize that the allocation of monies to various asset classes will be the major determinant of the Foundation's return and risk experience over time. Therefore, the Trustees will allocate investments across those asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the Foundation's investment objectives.

### **A. Permissible Asset Classes**

Because investment in any particular asset class may or may not be consistent with the objectives of the Foundation, the Trustees have specifically indicated in Appendix K those asset classes that may be utilized when investing the Foundation's assets.

### **B. Expected Returns, Risks, and Correlations for Permissible Asset Classes**

The risk and return behavior of the Foundation will be driven primarily by the allocation of investments across asset classes. In determining the appropriate allocation, the expected return and risk behavior of each asset class and the likely interaction of various asset classes in a portfolio must be examined. Appendix L lists the expected return and volatility for each permissible asset class and Appendix N shows correlations for each permissible asset class.

### **C. Long-Term Target Allocations**

Based on the investment objectives and constraints of the Foundation, and on the expected behavior of the permissible asset classes, the Trustees will specify a long-term target allocation for each class of permissible assets. These targets will be expressed as a percentage of the Foundation's overall market value, surrounded by a band of permissible variation resulting from market forces.

The long-term target allocations are intended as strategic goals, not short-term imperatives. Thus, it is permissible for the overall Foundation's asset allocation to deviate from the long-term target, as would likely occur during manager transitions, asset class restructurings, and other temporary changes in the Foundation. Deviations from targets that occur due to capital market changes are discussed below.

### **D. Rebalancing**

The Investment Committee has established specific targets for each asset class in the Long-Term Endowment and certain subaccounts. Asset allocation is the most critical component of a portfolio's return. Therefore, it is desirable to rebalance the portfolios to minimize deviations from the target asset allocations.

In general, cash flows to and from the Foundation will be allocated in such a manner as to move each asset class toward its target allocation.

The Trustees recognize that, periodically, market forces may move the Foundation's allocations outside the target ranges. The Trustees also recognize that failing to rebalance the allocations would unintentionally change the Foundation's structure and risk posture. Consequently, the Trustees have established the following process to rebalance the allocations periodically.

On at least an annual basis, if any strategic allocation is outside the specified target range, assets will be shifted to return the strategy to within the target range. The specific plan for rebalancing will identify those assets that can be shifted at the lowest possible risk and cost, if the rebalancing cannot be accomplished solely by allocating contributions and withdrawals.

The Investment Consultant, together with the staff, will complete the rebalancing process and notify the Committee at their next regularly held meeting. The Investment Consultant will assist staff as needed in the process of implementing any rebalancing.

## **XII. Review of Investment Policy, Asset Allocation, and Performance**

The Investment Policy Statement will be reviewed at least annually to ensure that the objectives and constraints remain relevant. However, the Trustees recognize the need for a stable long-term policy for the management of the Santa Barbara Foundation's assets, and major changes to this policy statement will be made only when significant developments in the circumstances, objectives, or constraints of the Foundation occur.

The asset allocation of the Long-Term Endowment and each of the Foundation's subaccounts will be reviewed on an on-going basis, and at least annually. When necessary, such reviews may result in a rebalancing of asset allocations. In general, the Trustees intend that the Long-Term Endowment and each of the Foundations subaccounts will adhere to its long-term target allocations, and that major changes to these targets will be made only in response to significant developments in the circumstances, objectives, or constraints of the Foundation or in the capital market opportunities.

The Trustees will specifically evaluate the performance of Long-Term Endowment and each of the Foundation's subaccounts relative to its objectives and to the returns available from the capital markets during the period under review. In general, the Trustees will utilize a combination of relative and absolute benchmarks in evaluating performance. The total performance of each portfolio will be evaluated relative to the investment objectives and constraints identified in this investment policy statement. Specifically, performance will be evaluated relative to "custom benchmarks" that weight the returns of available market indices on the basis of each portfolio's target asset allocation, to assess the implementation of each portfolio's investment strategy.

## **XIII. Investment Costs**

The Trustees intend to monitor and control investment costs at every level of the Santa Barbara Foundation.

- Professional fees will be negotiated whenever possible.
- Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
- If possible, assets will be transferred in-kind during manager transitions and Foundation restructurings to eliminate unnecessary turnover expenses.
- Managers will be instructed to minimize brokerage and execution costs.

## **XIV. Voting of Proxies**

The Trustees recognize that the voting of proxies is important to the overall performance of the Foundation. The Trustees have delegated the responsibility of voting all proxies to the investment managers. The Trustees expect that the managers will execute all proxies in a timely fashion. Also, the Trustees expect the managers to provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions.

## **XV. Conflicts of Interest**

All persons responsible for investment decisions or who are involved in the management of the Santa Barbara Foundation's investible assets or who are consulting to, or providing any advice whatsoever to the Committee, shall disclose in writing at the beginning of any discussion or consideration by the committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The committee may require such persons to remove themselves from the decision-making process.

Any members of the Committee responsible for investment decisions or who are involved in the management of the Long-Term Endowment or the subaccounts shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Committee. The intent of this provision is to eliminate conflicts of interest between committee membership and the Foundation. Failure to disclose any material benefit shall be grounds for immediate removal from the committee. This provision shall not preclude the payment of ordinary fees and expenses to the custodian(s), Investment Managers, or Investment Advisor in the course of their services on behalf of the Foundation.

## **XVI. Related Party Transactions**

The Foundation will not loan funds to related parties, defined as an officer, Committee member, employee, or donor, either current or prospective.

## **XVII. Procedure for Revising Guidelines**

All investment policies and performance goals will be reviewed annually or when deemed necessary by the Committee. The Board must approve changes to this policy.



## APPENDIX A

### SANTA BARBARA FOUNDATION RESPONSIBLE INVESTING POLICY

#### I. Statement of Responsible Investment Beliefs

The mission of the Santa Barbara Foundation is to mobilize collective wisdom and philanthropic capital to build empathetic, inclusive and resilient communities. We are committed to use all of the tools and resources that are necessary to facilitate community change, from traditional investments and grants to mission-related and program-related investments. As such, we believe that it is our responsibility to consider the impact of our investments on society and the planet, using the tools we have as investors to address discrimination, inequality, and environmental sustainability as we believe that the path to building a more sustainable economy is the path to building a more equitable society.

We believe that by integrating Environmental, Social and Corporate Governance (ESG) principles into investment analysis as core components of the decision-making process across all asset classes that we invest in, we will align our financial goals with the values and priorities of the Foundation, while delivering sustainable, risk adjusted returns to investors and stakeholders and minimizing negative externalities.

Prioritized areas of focus include climate change and diversity, equity, inclusion, and access (DEIA) which reflect the Foundation's mission. The Santa Barbara Foundation, its Investment Committee (IC) and investment consultant will specifically consider DEIA when selecting investment managers over time. It is the belief of both the IC and the investment consultant that diversity of thought and perspectives across a variety of factors can lead to better investment outcomes and we will use best efforts to source and evaluate suitable minority, women and emerging managers.

#### II. Guiding Principles

We will seek to incorporate ESG criteria in the Foundation's investment analysis and decision-making processes, particularly emphasizing profitable investments on a risk-adjusted basis with positive social and environmental impacts aligned with the priorities and values of the Foundation. To align with these principles, when appropriate the IC may select managers that:

- A. Utilize positive screening to proactively benefit the Foundation's performance.
- B. Utilize negative screening to limit the Foundation's involvement in those ESG issues which are antithetical to the Foundation's values, mission, and culture.
- C. Utilize integration and thematic investing to seek opportunities/solutions arising from the transition to a more sustainable economy.
- D. Advocate for appropriate disclosure on ESG issues by the investment managers and seek the incorporation of climate, racial equity and gender equity investment criteria into the investment processes and hiring practices of the underlying asset management firms in which we invest.

### **III. Reviewing the Responsible Investment Policy**

On an annual basis, the IC will use selective performance indicators to assess the progress towards established responsible investing transition goals; the effectiveness of the implementation plan; and potential revisions to the transition plan if and when new approaches to responsible investing emerge that should be considered, remaining consistent with the values, mission and culture of the Santa Barbara Foundation.

## APPENDIX B

### LONG-TERM ENDOWMENT

#### I. Investment Objectives

The objective of the Long-Term Endowment, as determined by the Committee, is to achieve a total return equivalent to or greater than the Endowment's financial requirements over the Time Horizon. The Endowment's financial requirements are the sum of the Spending Rate, the long-term inflation rate, the aggregate costs of portfolio management, administrative costs, and any growth factor that the Committee may, from time to time, determine appropriate.

#### II. Investment Considerations

- Risk: The Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- Liquidity: The Long-Term Endowment shall have no more than 30% of the assets invested in illiquid strategies at any given time. The Endowment has a target allocation of 2% in cash equivalents to ensure sufficient short-term liquidity.
- Time Horizon: The Long-Term Endowment has an infinite life. An investment Time Horizon of twenty-five years is appropriate.
- Taxes: The Foundation is tax-exempt.

### III. Asset Allocation

<b>By Function</b>	<b>Long-Term Policy Target (%)</b>	<b>Policy Range (%)</b>
<b>Growth</b>	<b>65</b>	<b>50-70</b>
Global Equity	50	40-60
Private Equity	10	5-15
Public Credit	5	0-10
<b>Inflation Hedges</b>	<b>17</b>	<b>12-22</b>
TIPS	--	0-4
Private Real Estate	8	4-12
Private Green Real Assets	9	4-14
<b>Risk Mitigating</b>	<b>16</b>	<b>11-21</b>
Investment Grade Bonds	10	5-15
Long-Term Government Bonds	--	0-4
Risk Mitigating/Hedge Funds	6	0-9
<b>Cash</b>	<b>2</b>	<b>0-4</b>
<i>Expected Return (20 years)</i>	<i>8.5<sup>1</sup></i>	
<i>Standard Deviation (annual)</i>	<i>13.5</i>	

<sup>1</sup> Based on Meketa's Interim 2024 capital market assumptions.

#### **IV. Performance Measurement and Evaluation**

The return of the Endowment will be measured against an interim benchmark that utilizes actual private markets returns. The interim benchmark is structured to change periodically to match the actual allocation of the Endowment, as the Endowment builds up the private markets program to reach the long-term policy targets. As the Endowment's actual allocation changes, the interim benchmark will also change accordingly.

Each category of public assets is to be compared to a benchmark and evaluated over a full market cycle. However, for private market assets, the interim benchmark will utilize the actual private market returns to minimize the difficulties in choosing a representative benchmark for those assets. It is expected that over a full market cycle, the performance of each segment of the portfolio, net of fees should equal or exceed the rate of return of the recommended benchmarks shown in Appendix M.

## Interim Benchmark Weights

	Year End 2024	Year End 2025	Year End 2026	Year End 2027	Year End 2028	Long Term Target
<b>Growth</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>65</b>
Global Equity	45.9	46.3	46.9	47.4	48.0	50
Private Equity	14.1	13.7	13.1	12.6	12.0	10
Public Credit	5	5	5	5	5	5
<b>Inflation Hedges</b>	<b>15.1</b>	<b>16.6</b>	<b>17.2</b>	<b>17.0</b>	<b>17.3</b>	<b>17</b>
Real Estate	7.3	7.8	8.1	7.8	8.0	8
<i>Private RE</i>	6.2	6.6	6.9	7.1	7.3	8.0
<i>Public RE</i>	1.1	1.2	1.2	0.7	0.7	--
Private Green Real Assets	6.4	7.6	8.1	8.4	8.7	9
<i>Infrastructure</i>	4.4	5.5	5.6	5.8	5.8	6.0
<i>Sustainability</i>	2.0	2.1	2.5	2.6	2.9	3.0
Private Natural Resources	1.4	1.2	1.0	0.8	0.6	--
<b>Risk Mitigating</b>	<b>17.9</b>	<b>16.4</b>	<b>15.8</b>	<b>16.0</b>	<b>15.7</b>	<b>16</b>
Investment Grade Bonds	11.9	10.4	9.8	10.0	9.7	10
Hedge Funds	6	6	6	6	6	6
<b>Cash</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

## APPENDIX C

### FOCUS GROWTH BLEND

#### I. Investment Objectives

The objective of the Focus Growth Blend Portfolio is to provide a prudent level of total return, with an emphasis on capital appreciation. The portfolio has more exposure to equities than fixed income in an effort to provide long term capital growth. Distributions from the portfolio are not restricted by a spending policy. Therefore, the portfolio is invested in 100% liquid assets, including a diversified pool of global equities, fixed income, real assets, and cash. The portfolio has a large allocation to Growth assets, as a result, has a higher expected return and higher volatility than the more conservative Focus Income Blend Portfolio.

#### II. Investment Considerations

- Risk: The Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- Liquidity: The Focus Growth Blend will be invested in 100% liquid assets and has a target allocation of 3% in cash equivalents to ensure sufficient short-term liquidity.
- Time Horizon: The Focus Growth has an infinite life. An investment Time Horizon of twenty-five years is appropriate.
- Taxes: The Foundation is tax-exempt.

### III. Asset Allocation

<b>By Function</b>	<b>Policy Target (%)</b>	<b>Policy Range (%)</b>
<b>Growth</b>	<b>62</b>	<b>52-72</b>
Global Equity	62	52-72
Private Equity	-	-
<b>Income</b>	<b>--</b>	<b>0-13</b>
High Yield Bonds	--	0-6
Bank Loans	--	0-4
Emerging Market Bonds	--	0-3
<b>Inflation Hedges</b>	<b>15</b>	<b>10-20</b>
TIPS	7	3-11
Real Estate	8	3-13
Natural Resources	--	0-4
Infrastructure	--	0-4
<b>Risk Mitigating</b>	<b>20</b>	<b>15-25</b>
Investment Grade Bonds	20	15-25
Long-Term Government Bonds	--	0-6
Risk Mitigating/Hedge Funds	0	-
<b>Cash</b>	<b>3</b>	<b>1-5</b>
<i>Expected Return (20 years)</i>	<i>7.7<sup>1</sup></i>	
<i>Standard Deviation (annual)</i>	<i>12.5</i>	

### IV. Performance Measurement and Evaluation

The return of the Focus Growth Blend will be measured against a strategic benchmark, a blended benchmark that mirrors the strategic asset allocation detailed above. As the Focus Growth Blend's policy allocation changes, the strategic benchmark should also change accordingly.

Each category of assets is to be compared to a benchmark and evaluated over a full market cycle. It is expected that over a full market cycle, the performance of each segment of the portfolio, net of fees should equal or exceed the rate of return of the recommended benchmarks shown in Appendix M.

<sup>1</sup> Based on Meketa's Interim 2024 capital market assumptions.



## APPENDIX D

### FOCUS INCOME BLEND

#### I. Investment Objectives

The objective of the Focus Income Blend Portfolio is to provide stable capital appreciation on a total return basis. The portfolio has more exposure to fixed income than equities in an effort to focus on stability over long term returns. The portfolio is more conservative than the other portfolio options and, as a result, has a lower expected return with lower volatility. Distributions from the portfolio are not restricted by a spending policy limit.

#### II. Investment Considerations

- Risk: The Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- Liquidity: The Focus Income Blend will be invested in 100% liquid assets and has a target allocation of 10% in cash equivalents to ensure sufficient short-term liquidity.
- Time Horizon: The Focus Income Blend has an infinite life. An investment Time Horizon of twenty-five years is appropriate.
- Taxes: The Foundation is tax-exempt.

### III. Asset Allocation

By Function	Policy Target (%)	Policy Range (%)
<b>Growth</b>	<b>30</b>	<b>25-35</b>
Global Equity	30	25-35
Private Equity	-	-
<b>Income</b>	<b>--</b>	<b>0-14</b>
High Yield Bonds	--	0-3
Bank Loans	--	0-3
Emerging Market Bonds	--	0-3
<b>Inflation Hedges</b>	<b>17</b>	<b>12-22</b>
TIPS	12	7-17
Real Estate	5	1-9
Natural Resources	-	-
Infrastructure	--	0-4
<b>Risk Mitigating</b>	<b>43</b>	<b>33-53</b>
Investment Grade Bonds	43	33-43
Long-Term Government Bonds	--	0-9
Risk Mitigating/Hedge Funds	-	-
<b>Cash</b>	<b>10</b>	<b>0-20</b>
<i>Expected Return (20 years)</i>	<b>6.2<sup>1</sup></b>	
<i>Standard Deviation (annual)</i>	7.2	

### IV. Performance Measurement and Evaluation

The return of the Focus Income Blend will be measured against a strategic benchmark, a blended benchmark that mirrors the strategic asset allocation detailed above. As the Focus Income Blend's policy allocation changes, the strategic benchmark should also change accordingly.

Each category of assets is to be compared to a benchmark and evaluated over a full market cycle. It is expected that over a full market cycle, the performance of each segment of the portfolio, net of fees should equal or exceed the rate of return of the recommended benchmarks shown in Appendix M.

<sup>1</sup> Based on Meketa's Interim 2024 capital market assumptions.

## APPENDIX E

### SOCIALLY RESPONSIBLE INVESTMENT PORTFOLIO

#### I. Investment Objectives

The objective of the Socially Responsible Investment Portfolio (“SRI”) is to achieve risk-adjusted market rates of return while incorporating environmental, social, and governance (ESG) considerations in the investment decision making process. The pool is designed for capital growth with long-term grant making in mind, over capital preservation. Volatility in this portfolio is expected to be slightly higher than the Long-Term Endowment and the Focus Growth Blend. Distributions from the portfolio are not restricted by a spending policy limit.

#### II. Investment Considerations

- Risk: The Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- Liquidity: The SRI Portfolio will be invested in 100% liquid assets and has a target allocation of 3% in cash equivalents to ensure sufficient short-term liquidity.
- Time Horizon: The SRI Portfolio has an infinite life. An investment Time Horizon of twenty-five years is appropriate.
- Taxes: The Foundation is tax-exempt.

#### III. Socially Responsible Investment Considerations

The investment objectives must be pursued with consideration for moral and social implications of investing. The Foundation intends to encourage those corporations that promote the common good and to avoid investing in companies which flagrantly jeopardize the common good. There may be instances; however, where such information may not be available for certain asset classes. In these cases, the Investment Committee will determine if investment in the asset class(es) is acceptable.

#### IV. Asset Allocation

By Function	Policy Target (%)	Policy Range (%)
<b>Growth</b>	<b>67</b>	<b>57-77</b>
Global Equity	--	--
Domestic Equity	40	30-50
International Equity	27	17-37
Private Equity	-	-
<b>Income</b>	<b>6</b>	<b>1-11</b>
High Yield Bonds	6	1-11
Bank Loans	-	-
Emerging Market Bonds	-	-
<b>Inflation Hedges</b>	<b>-</b>	<b>-</b>
TIPS	-	-
Real Estate	-	-
Natural Resources	-	-
Infrastructure	-	-
<b>Risk Mitigating</b>	<b>24</b>	<b>14-34</b>
Investment Grade Bonds	24	14-34
Long-Term Government Bonds	-	-
Risk Mitigating/Hedge Funds	-	-
<b>Cash</b>	<b>3</b>	<b>1-5</b>
<i>Expected Return (20 years)</i>	<i>7.7<sup>1</sup></i>	
<i>Standard Deviation (annual)</i>	<i>12.1</i>	

#### V. Performance Measurement and Evaluation

The return of the SRI Portfolio will be measured against a strategic benchmark, a blended benchmark that mirrors the strategic asset allocation detailed above. As the policy allocation changes, the strategic benchmark should also change accordingly.

Each category of assets is to be compared to a benchmark and evaluated over a full market cycle. It is expected that over a full market cycle, the performance of the equity each segment of the portfolio, net of fees should equal or exceed the rate of return of the recommended benchmarks shown in Appendix M.

<sup>1</sup> Based on Meketa's Interim 2024 capital market assumptions.

## APPENDIX F

### CAPITAL PRESERVATION PORTFOLIO

#### I. Investment Objectives

The objective of the Capital Preservation Portfolio is to provide a cash equivalent pool to allow donors to spend down their corpus in a short time horizon.

#### II. Investment Considerations

- Risk: The Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- Liquidity: The vast majority of the Account's assets are invested in cash or cash equivalents.
- Time Horizon: The Capital Preservation Portfolio has a short-term time horizon.
- Taxes: The Foundation is tax-exempt.

#### III. Asset Allocation

By Asset Class	Policy Target (%)	Policy Range (%)
Cash	100	NA

#### IV. Performance Measurement and Evaluation

The return of the portfolio will be measured against cash.

## APPENDIX G

### POOLED INCOME FUNDS

#### I. Investment Objectives

The Income Fund's objective is to maximize current income while preserving the corpus of the Fund. The Income and Growth Fund's objective is to generate current income while growing the corpus of the Fund. The income generated by these accounts is distributed to the donor's participating until their death, at which time their account balance goes to charity. The asset allocation for the Income Fund is consistent with the benchmark of 90% the Bloomberg-Barclays Intermediate Gov't/Credit Bond Index and 10% cash. The Income and Growth Fund's asset allocation and benchmark consists of 35% S&P 500 and 55% Bloomberg-Barclays Intermediate Gov't/Credit Bond Index and 10% cash.

#### Investment Considerations

- Risk: The Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- Liquidity: Because the vast majority of the Account's assets are marketable, liquidity can be obtained as needed; therefore, the Account does not have an explicit allocation to cash or cash equivalents.
- Time Horizon: Variable
- Taxes: The Foundation is tax-exempt.

## II. Asset Allocation

### Income Fund

By Function	Policy Target (%)	Policy Range (%)
<b>Income</b>	<b>90</b>	
Investment Grade Bonds	90	
<b>Cash</b>	<b>10</b>	

### Income and Growth Fund

By Function	Policy Target (%)	Policy Range (%)
<b>Growth</b>	<b>35</b>	
Large Cap U.S. Equity	35	
<b>Income</b>	<b>55</b>	
Investment Grade Bonds	55	
<b>Cash</b>	<b>10</b>	

## III. Performance Measurement and Evaluation

The return of the Funds will be measured against the benchmarks detailed above. Each category of assets is to be compared to a benchmark and evaluated over a full market cycle. It is expected that over a full market cycle, the performance of each segment of the portfolio, net of fees should equal or exceed the rate of return of the recommended benchmarks shown in Appendix M.

## APPENDIX H

### CHARITABLE REMAINDER TRUSTS

#### I. Investment Objectives

The investment objective is a growing income stream, with long term capital appreciation, to generate income for periodic distributions to the donors/beneficiaries, as well as growth of capital to ensure future payouts & remainder interests are met. In order to do so, a balanced approach (i.e. 60% equity & 40% fixed income & cash equivalents) will be implemented in most cases, per the asset allocation guidelines shown below. Flexibility in approach allows customization of each Trust's investment objective as necessary & appropriate.

#### II. Investment Considerations

- Risk: The Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- Liquidity: Because the vast majority of the Trusts' assets are marketable, liquidity can be obtained as needed.
- Time Horizon: Long-term
- Taxes: The Foundation is tax-exempt.



### III. Asset Allocation

The asset allocation ranges below are meant as general guidelines for those Trusts having a Balanced Growth & Income investment objective. Each Trust will have its own investment objective (i.e. Growth & Income, Income & Growth, etc.) and corresponding asset allocation guidelines, which will be adhered to by the investment manager. The Trusts will be rebalanced periodically. The investment manager can make tactical asset allocation decisions within the below ranges. For temporary periods of time, the minimum/maximum ranges for the asset classes can vary from plus/minus 5%, until the portfolio is rebalanced.

#### Balanced Portfolio Asset Allocation Ranges

	Minimum (%)	Target (%)	Maximum (%)
<b>Equities</b>	<b>50</b>	<b>60</b>	<b>70</b>
Large Cap	15	31.5	56.7
Mid Cap	2.5	6.3	12.6
Small Cap	0	4.2	12.6
International: Developed	5	12	21
International: Emerging	0	6	14
<b>Fixed Income</b>	<b>25</b>	<b>35</b>	<b>45</b>
<b>Real Assets</b>	<b>0</b>	<b>0</b>	<b>10</b>
<b>Cash Equivalents</b>	<b>0</b>	<b>5</b>	<b>20</b>

### IV. Performance Measurement and Evaluation

For each Trust with a Balanced Growth & Income investment objective, it is expected that investment performance will approximate a balanced benchmark consisting of 42% Russell 3000 Index, 18% MSCI ACWI ex U.S. Index, 35% Bloomberg-Barclays Aggregate Bond Index & 5% Citi 1 month T-Bills, net of costs, over a business cycle (i.e. 5 years). The portfolio should have comparable risk to that of the market. For Trusts with other investment objectives, performance will be measured similarly, utilizing the same indices above and the strategic neutral asset allocation position for that particular investment objective.

## APPENDIX I

### DONOR-ADVISED FUNDS

#### **Donor-Advised Funds**

The Committee can approve outside investment managers for Donor-Advised Funds, with specific asset allocation developed by the outside investment advisor. The Committee is responsible for reviewing and recommending approval of all investment relationships for Donor-Advised Funds managed apart from the Endowment or subaccounts to the Board.

## APPENDIX J

### CHARITABLE GIFT ANNUITY FUND STATEMENT OF INVESTMENT POLICY

#### **Objectives**

A trust fund has been established by the Santa Barbara Foundation (SBF), the SBF CHARITABLE GIFT Annuity Fund, for the purposes of keeping the gift annuity assets legally and physically segregated from the other assets of the organization as prescribed in California Insurance Code Section 11521.

Since the principal purpose of the SBF CHARITABLE GIFT Annuity Fund, hereinafter referred to as the Fund, is to provide annuity payments to the donors, the trustees of the Fund are required to segregate and invest the assets of the Fund as outlined in the California Insurance Code.

All statements contained in this investment policy are believed to be in accordance with the California Insurance Code.

The purpose of the investment policy is to establish the standards for the management of the Fund's assets so as to remain in compliance with the California Insurance Code. The principal purpose of this document is to establish formal policy and procedures that govern all present and future Fund investments.

By defining investment parameters, the intent of this policy is to protect the assets from unreasonable risk due to imprudent acts.

#### **Fiduciary Responsibility**

Any person with discretion, control or authority over the Fund and/or its assets will be considered a fiduciary.

Investment decisions will be made with a discretionary relationship. The investment manager(s) must be a registered investment advisor under the Investment Act of 1940 and must be currently and continuously registered as an Investment Advisor with the Securities and Exchange Commission and State regulators, or in the case of a bank related financial institution that is not an RIA, be regulated by the Office of the Comptroller of the Currency.

#### ASSET ALLOCATION / INVESTMENT POLICY / DIVERSIFICATION TIME HORIZON / LIQUIDITY / TAX STATUS

##### Overall Allocation Policy

For the SBF Charitable Gift Annuity Fund, the overall target allocation is 40% Equities, 55% Fixed Income & 5% Cash Equivalents. The target allocation takes into consideration the California regulations governing the reserve portion of charitable gift annuity fund.

## Asset Allocation Ranges

	Minimum (%)	Target (%)	Maximum (%)
<b>Equities</b>	<b>30</b>	<b>40</b>	<b>50</b>
Large Cap	9	21	40.5
Mid Cap	1.5	4.2	9
Small Cap	0	2.8	9
International: Developed	3	8	15
International: Emerging	0	4	10
<b>Fixed Income</b>	<b>45</b>	<b>55</b>	<b>65</b>
<b>Real Assets</b>	<b>0</b>	<b>0</b>	<b>10</b>
<b>Cash Equivalents</b>	<b>0</b>	<b>5</b>	<b>20</b>

### Investment Objective

The primary investment objective is an average level of current income, with long-term growth of capital. Total return of the portfolio is expected to be comparable to the relevant benchmark, over a 5-year market cycle. Volatility of returns for the portfolio should be comparable to the market.

### Performance Measurement and Evaluation

It is expected that investment performance will approximate a Balanced Income & Growth investment objective benchmark consisting of 28% Russell 3000, 12% MSCI ACWI ex U.S., Index, 55% Bloomberg-Barclays Intermediate Government Index Index & 5% Citi 1 month T-Bills, net of costs, over a business cycle (i.e. 5 years). The portfolio should have comparable risk to that of the market.

Time Horizon: Long-term

Liquidity Needs: Liquidity needs are ongoing due to periodic annuitant distributions.

Tax Status: Non taxable

Investment review reports will be provided quarterly.

The Investment Policy Statement should be reviewed at least annually, & revised as necessary.

The Excess Reserve portion of the Charitable Gift Annuity Fund can be invested without the restrictions pertaining to the Reserve portion of the Fund.

## INVESTMENT RESTRICTIONS

### Reserve Account Policy Guidelines and Restrictions

As dictated by the State Insurance code, equity holdings cannot exceed 50% of the total reserve portfolio. Further, no more than 50% of the reserve portfolio in total, can be held in mutual funds or exchange traded funds and stocks.

State Insurance Code Sec. 11521.2 (a) the reserve required by the table of commensurate values for each annuity contract issued must be invested in investments specified in Sections 1170 through 1182 except that a certificate holder may invest in investment companies registered under the federal Investment Company Act of 1940, and in securities, including interests in those investment companies, listed and traded on the New York Stock Exchange, the American Stock Exchange or regional stock exchanges or the National Market System of the Nasdaq Stock Market or successors to such exchanges or market having the same qualifications, to the extent of the lesser of net worth (assets over liabilities and reserves) of the certificate holder or 50 percent of these general investments.

For all equities, whether mutual funds, exchange-traded funds or individual holdings, the following guidelines apply. The portfolio will include large-capitalization growth and moderate-growth elements. Cyclical-growth models will be integrated with higher yield, slower growth components. If any individual equity securities are included in the portfolio, those stocks will be required to pay a dividend.

For all fixed income assets, whether mutual funds, exchange-traded funds or individual holdings, the portfolio will generally be invested to achieve an intermediate-term average maturity. Individual bonds, fixed asset mutual funds and exchange-traded funds may include U.S. Treasuries and Agency securities, as well as California issued bonds. The allocation to this sector will be employed in an effort to increase current income and reduce the volatility of returns.

Money market funds may be used as reserves temporarily not committed to equities or bonds.

Purchase of options, warrants, futures, letter stock and assumption of short positions is prohibited.

Pursuant to the California Insurance Code Sections 1170 through 1182 and the State of California Department of Insurance, only the following investment alternatives are allowed for selection by the advisor, subject to the restrictions outlined in Appendix C of this Investment Policy:

- Obligations of the United States of America, the Dominion of Canada, the Commonwealth of Puerto Rico and the United States Postal Service.
- Bonds, of any State of the United States and any County, County Water District, Municipality and School District within the State of California.
- Veteran Loans as prescribed in California Insurance Code Section 1176.5 and 1176.6.

- Insured mortgages as permitted in California Insurance Code Section 1177.
- Farm Loan Bonds in California Insurance Code Section 1179.
- Home Loan Bonds in California Insurance Code Section 1180.
- Investment companies registered under the federal Investment Company Act of 1940, and in securities, including interests in those investment companies, listed and traded on the New York Stock Exchange, the American Stock Exchange or regional stock exchanges or the National Market System of the Nasdaq Stock Market or successors to such exchanges or market having the same qualifications, to the extent of the lesser of net worth (assets over liabilities and reserves) of the certificate holder or 50 percent of these general investments.
- State of California Warrants.
- Accounts in banks or savings and loan associations insured by an agency of the federal government.

## APPENDIX K

### PERMISSIBLE ASSET CLASSES

Asset Class
Cash Equivalents <sup>1</sup>
TIPS
Long-term Government Bonds
Investment Grade Bonds
Bank Loans
High Yield Bonds
Emerging Market Bonds
Global Equity
U.S. Equity
U.S. Large Cap
International Equity
Private Equity
Real Estate
REITs
Natural Resources (Public)
Natural Resources (Private)
Infrastructure (Public)
Infrastructure
Hedge Funds

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<sup>1</sup> Cash and Equivalents Kept for Operating Purposes, Granting:

The cash shall be invested with the objective of preserving assets to cover the Organization's operating expenses, granting needs, capital calls, etc. and to realize earnings in a way that allows for immediate liquidity to meet these needs. Cash may be maintained in checking accounts that the foundation uses for day-to-day operations and may be invested in other cash-equivalent investments, such as savings accounts, money market accounts, certificates of deposit with maturities appropriate for expected needs, Treasury bills, commercial paper and short-term corporate debt securities of domestic and foreign corporations rated AA or better. A key objective is to maintain price stability at all times although this is not guaranteed.

**APPENDIX L**

**TWENTY-YEAR, SINGLE ASSET CLASS AND SUB-ASSET CLASS FORECAST  
AS OF DECEMBER 31, 2021**

<b>Asset Class / Sub-Asset Class</b>	<b>Expected Return (%)</b>	<b>Standard Deviation of Expected 20-Year Annual Return (%)</b>
Cash Equivalents	1.7	1.0
TIPS	2.4	7.0
Long-term Government Bonds	2.8	12.0
Investment Grade Bonds	2.4	4.0
Bank Loans	4.0	10.0
High Yield Bonds	4.4	11.0
Emerging Market Bonds	4.4	12.5
Global Equity	7.2	18.0
U.S. Equity	6.8	18.0
U.S. Large Cap	6.8	17.0
International Equity	7.5	19.0
Private Equity	10.0	28.0
Real Estate (Private)	7.4	17.0
REITs	7.1	26.0
Natural Resources (Public)	7.7	23.0
Natural Resources (Private)	8.5	24.0
Opportunistic Green Strategies	9.3	26.0
Infrastructure (Public)	7.4	18.0
Private Infrastructure (Core)	7.3	14.0
Private Infrastructure (Non-core)	9.3	22.0
Farmland	7.2	12.0
Hedge Funds	4.4	7.0



## APPENDIX M

### ASSET CLASS PERFORMANCE MEASUREMENT

Asset Class / Sub-Asset Class	Recommended Benchmark
Cash Equivalents	
TIPS	Bloomberg-Barclays US TIPS Index
Long-term Government Bonds	Bloomberg-Barclays Long Treasury Index
Investment Grade Bonds	Bloomberg-Barclays Aggregate Bond Index
Bank Loans	CSFB Leveraged Loan Index
High Yield Bonds	Bloomberg-Barclays US Corporate HY 2% Issuer Cap Index
Emerging Market Bonds	Custom Benchmark <sup>1</sup>
Global Equity	MSCI ACWI Index
U.S. Equity	Russell 3000 Index
U.S. Large Cap	S&P 500 Index
International Equity	MSCI ACWI ex-U.S.
Private Equity	Custom Private Equity Benchmark <sup>2</sup>
Real Estate	NCREIF-ODCE
REITs	FTSE EPRA/NAREIT Developed Liquid Index
Natural Resources (Public)	S&P Global Natural Resources Index
Natural Resources (Private)	CPI+4% (1Q Lagged)
Infrastructure (Public)	S&P Global Infrastructure Index
Opportunistic Green Strategies	Actual SBF Opportunistic Green Strategies Returns
Farmland	Actual SBF Farmland Returns
Infrastructure	CPI+3% (1Q Lagged)
Hedge Funds	Custom Benchmark <sup>3</sup>

<sup>1</sup> 35% JPM EMBI Global Index, 35% JPM CEMBI Broad Diversified Index, 30% JPM GBI-EM Global Diversified Index.

<sup>2</sup> Actual SBF Private Equity returns for the current quarter and Preqin data for all other trailing periods.

<sup>3</sup> 67% HFRI Macro Index, 33% Barclay CTA Index

**APPENDIX N**  
**EXPECTED CORRELATIONS AMONG ASSET CLASSES AND SUB-ASSET CLASSES**  
**AS OF DECEMBER 31, 2021**

Asset Class/ Sub Asset Class	IGBs	Gov't Bonds	TIPS	High Yield Bonds	Bank Loans	EM Bonds	US Equity	Int'l Equity	Global Equity	Private Equity	Real Estate	REITs	Opp. Green Strategies (Private)	Infra (Public)	Infra	Hedge Funds
<b>Investment Grade Bonds</b>	1.00															
<b>Long-term Government Bonds</b>	0.83	1.00														
<b>TIPS</b>	0.76	0.53	1.00													
<b>High Yield Bonds</b>	0.22	-0.22	0.41	1.00												
<b>Bank Loans</b>	0.01	-0.36	0.24	0.86	1.00											
<b>Emerging Market Bonds</b>	0.53	0.11	0.63	0.82	0.64	1.00										
<b>US Equity</b>	0.02	-0.31	0.20	0.74	0.64	0.59	1.00									
<b>Int'l Equity</b>	0.09	-0.28	0.26	0.76	0.62	0.68	0.89	1.00								
<b>Global Equity</b>	0.07	-0.29	0.26	0.78	0.65	0.68	0.96	0.97	1.00							
<b>Private Equity</b>	0.00	-0.10	0.05	0.70	0.65	0.45	0.85	0.80	0.80	1.00						
<b>Real Estate</b>	0.20	0.05	0.10	0.50	0.45	0.30	0.50	0.45	0.45	0.45	1.00					
<b>REITs</b>	0.26	-0.02	0.32	0.72	0.56	0.61	0.75	0.68	0.73	0.50	0.80	1.00				
<b>Opp. Green Strategies (Private)</b>	0.01	-0.28	0.17	0.64	0.58	0.51	0.78	0.72	0.78	0.65	0.40	0.53	1.00			
<b>Infrastructure (Public)</b>	0.24	-0.13	0.37	0.77	0.64	0.73	0.83	0.91	0.90	0.55	0.55	0.73	0.67	1.00		
<b>Infrastructure</b>	0.30	0.15	0.30	0.60	0.50	0.50	0.55	0.55	0.65	0.45	0.60	0.45	0.65	0.90	1.00	
<b>Hedge Funds</b>	0.03	-0.34	0.26	0.77	0.73	0.64	0.86	0.87	0.90	0.60	0.45	0.58	0.77	0.83	0.60	1.00

## APPENDIX O

### GIFTS OF SECURITIES

1. Gifts of securities are not donated directly into the Endowment Pool but may become part of the pool.
2. Securities will be liquidated with five (5) business days of receipt unless:
  - a. Advised otherwise by legal counsel after review for future liability or legal complications, or
  - b. The gift is contingent on retaining the securities in the Endowment, subject to all of the following conditions:
    - Holding costs, such as taxes, should not be unreasonably high nor present cash flow difficulties,
    - Should such investments require additional administrative or personnel outlays, these costs should be factored into the expected future returns to determine acceptability to both the Endowment and to the Foundation as an organization, and
    - To be included in the Pool, a donated investment must be considered a valuable long-term investment, comparable to other pool investments.
3. Gifts in kind may be held be any individual (non-pooled) endowment fund according to the criteria above. The ultimate goal should be to liquidate that asset and place the proceeds in the designated investment account.

## APPENDIX P

### POLICY STATEMENT AND PROCEDURES FOR FAIR VALUE MEASUREMENT OF INVESTMENTS

#### **Purpose and Background**

This Policy Statement outlines the internal controls and the valuation process utilized by the Santa Barbara Foundation to determine the fair values of its financial assets as required under (ASC) 820. The Statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years and is applicable to both profit and not-for-profit entities that prepare financial statements under US GAAP.

The Foundation follows the Fair Value Measurements and Disclosures accounting standard which requires enhanced disclosures about investments that are measured and reported at fair value. The standard establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

#### **Overview of (ASC) 820**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by the Foundation to sell an asset or be paid by the Foundation to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

There are three valuation techniques that may be used to measure fair value under (ASC) 820: (1) the market approach, (2) the income approach and (3) the cost approach. Inputs to the valuation techniques are described as being either observable or unobservable assumptions that market participants use in pricing an asset or liability, including assumptions involving risks, such as the risk inherent in a particular valuation technique used to measure fair value. Under the Standard, the valuation

techniques used to measure fair value must be consistently applied, maximize the use of observable inputs and minimize the use of unobservable inputs.

The Standard prioritizes valuation inputs into a fair value hierarchy that consists of three broad levels designed to increase consistency and comparability in fair value measurements and related disclosures.

### **Fair Value Hierarchy**

**Level 1** - Unadjusted quoted prices in an active market for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Examples - Prices derived from a stock exchange like the NYSE or NASDAQ.

**Level 2** - Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly. Examples - Matrix pricing, market corroborated pricing; inputs such as yield curves and indices for bonds and other fixed income securities.

**Level 3** - Unobservable inputs for the asset or liability used to measure fair value that rely on the reporting entity's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Examples - Investment manager pricing for limited partnerships, private placements, private equities, certain hedge funds and real asset funds.

Under the Standard, reporting entities must disclose information that enables users of its financial statements to assess the inputs used to develop measurements for assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (for example, trading securities). For recurring fair value measurements using significant unobservable inputs (Level 3), reporting entities must also disclose the effect of the measurements on earnings (or changes in net asset) for the reporting period.

Financial instruments are considered valued at NAV when the investment (hedge funds, private equity, commingled funds and real asset/real estate funds) are valued at NAV based on capital statements provided by entities that calculate fair value using NAV per share or its equivalent.

The Investment Committee, in conjunction with the external investment advisors, monitors and analyzes the valuation of the investment on a quarterly basis. The Investment Committee reports to the Board of Trustees. The valuation considers variables such as financial performance of investments, recent sale prices of investments, and other pertinent information.

The Foundation includes a detailed discussion on the valuation methodology as part of the annual audit footnotes.

## **SBF Valuation Methodology and Internal Controls**

As a matter of policy, the Santa Barbara Foundation seeks to:

- Maintain accurate valuations of assets held in the various portfolios for which we are responsible, including those held by outside money managers on our behalf.
- Follow procedures to review and validate valuations on a regular basis.

The Foundation has established the following internal control procedures:

Foundation staff completes the following internal controls as part of initial and ongoing due diligence for our investments, with an added focus on assets valued using Level 2 or Level 3 inputs:

- Review of offering memorandum/private placement memorandum (PPM) with special attention paid to the valuation process outlined in the document.
- Review of all updated PPMs (if applicable), and ADVs (if applicable).
- On-going review of underlying investments, including the complexity of the investments, liquidity of trading markets, and other details provided by investment manager.
- In person meetings with investment managers, as needed, to discuss changes at the firm, in the market and to their fund, noting any impact to valuations.
- Regular review of all manager communications, including quarterly shareholder's letters and performance reports/updates, conference calls, etc. for changes that may impact valuations and for reasonableness.
- Review of K-1s and/or other tax filings to identify UBTI and to review current partnership valuation.
- Compare performance to publicly available data, benchmarks or expected returns for reasonableness.
- Compare investment advisor's performance calculations to the alternative investment manager's statement and to prior statement for reasonableness.
- Maintain a spreadsheet for each privately held fund tracking all cash flows as reported and compare data to statements received from each manager.

- Review of audited financial statements, noting basis of accounting, summary of significant accounting policies and valuation procedures, name of audit firm, type of opinion or change of auditor, and changes to valuation inputs or assumptions.

### **Illiquid Assets Held Separately from the Foundation's Portfolios**

The Foundation receives gifts of limited partnerships, closely held stock, real estate, and other illiquid assets from time to time. Generally, the written policy of the Foundation is to liquidate all marketable assets as soon as practicable and invest the proceeds in one of the investment portfolios. However, in certain situations, it is more appropriate to retain the contributed asset and/or liquidate it at a later date.

Each illiquid asset held may be subject to its own particularities, which require a specific valuation frequency and process. Generally the Foundation's investment committee will concur with a valuation process for unique illiquid asset at the time of gift acceptance. The following provides a general overview of the valuation process by gift type:

#### **Real Estate**

For real estate (land and/or buildings), it is the policy of the Foundation to obtain appraisals for the assets at least every three-years, and secure a comfort letter, review comps or use some similar method in the intervening years. We consider these to be Level 3 inputs. However, should certain markets experience an event or series of events that would warrant more frequent appraisals; we may seek appraisals on the applicable pieces of real property more frequently.

#### **Closely Held Stock, Options, Limited Partnerships and other illiquid assets**

As summarized earlier, we obtain K-1s, and/or audited financial statements from managers of limited partnerships and from companies for which we hold closely held stock, private equity and hedge fund investments on an annual basis, as information is available. We book either the net asset value (NAV) or calculated per share price, taking into account our understanding of the assets and the markets in which they do business. As an added step, we will annually send confirmation letters to all managers in order to gain additional details related to the investments and its business activities. Level 3 inputs are used to assign values to all the assets in this category.

## APPENDIX Q

### INVESTMENT POLICIES FOR INVESTMENT MANAGERS

The following are guidelines placed on individual managers within specific asset classes:

#### All Traditional Managers

- Index managers shall be terminated if performance or volatility significantly differs from that of the benchmark.
- Active managers may be terminated due to philosophical changes, management turnover, poor long-term investment performance, or other material changes.

#### Alternative Investments

- Alternative investment managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers. Instead, the Committee may choose to terminate a manager, subject to the manager's liquidation policy, if they are dissatisfied with the manager and/or his strategy.

#### Other

- Securities Lending: Investment Managers (via contract with the Foundation), may engage in securities lending, or the "loan" of the Foundation's securities in return for interest, to broker dealers as a means of enhancing income.



## **APPENDIX R**

### **CRISIS RESPONSE PLAN**

*The purpose of a Crisis Response Plan is to protect the assets of the Santa Barbara Foundation by structuring a response to unanticipated investment related crises.*

#### **OVERVIEW**

An investment related crisis is broadly defined as an event that interrupts or impairs the Foundation's and/or its investment managers' ability to effectively monitor or manage the Foundation's assets. An unexpected crisis could take many forms, from a natural disaster that disrupts the monitoring of securities, to mass personnel departures at an investment manager that effectively renders the Foundation's assets unmanaged. Occasionally, investment related crises arise that require immediate action. The Board of Trustees believes the Foundation's assets should never be left unattended and recognize that under extreme circumstances it may be prudent to take urgent investment action on short notice.

This document describes in detail the procedure that the Board of Trustees have adopted for emergency use in investment related crises.

#### **DEFINITION OF CRISIS RESPONSE GROUP**

To deal with such emergencies, the Board of Trustees have identified a crisis Response team in advance. The Crisis Response Group will consist of six entities:

1. the Vice President, Finance and Administration,
2. the Chief Executive Officer
3. the Foundation's Investment Consultants,
4. the Chair of the Investment Committee,
5. the Chair of the Board of Trustees,
6. one designated Trustee who also serves on the Investment Committee

An Appendix to this document lists the individuals currently in these roles.

If possible, all activities of the Crisis Response Group will be conducted in parallel by the six parties. However, if the Vice President of Finance and Administration is unavailable, the Foundation's Investment Consultant is empowered to act alone in conjunction with the Chief Executive Officer and the three Designated Trustees.

## CRISIS RESPONSE PLAN

An unexpected crisis could take many forms, from a natural disaster that disrupts the monitoring of securities, to mass personnel departures that effectively render the Foundation's assets unmanaged. Common to every crisis, however, would be the need to act quickly to minimize a negative impact on the Foundation's assets. The Crisis Response Plan, outlined below, has four steps: the discovery of the negative event, the evaluation of the negative event, the implementation of appropriate action, and a review of the crisis intervention.

- *Discovery of Event*

The initial discovery of a material event could come from many sources, including the Investment Consultant, the public media, the custodian bank, or investment managers. Therefore, it is important that all professionals understand their duty to report significant events immediately to the Crisis Response Team. A memorandum describing the duty to notify and providing relevant telephone numbers should be circulated by the Foundation's Investment Office to all involved parties (Board of Trustees, Investment Committee, custodian bank, investment managers, and Investment Consultant) each year.

- *Evaluation of Event*

Immediately upon notification, the Investment Consultant and the Vice President of Finance and Administration will consider the nature and severity of the event. After evaluating the event fully, the Investment Consultant and Vice President of Finance and Administration will consult the other members of the Crisis Response Team and prepare a recommended course of action.

- *Crisis Response Implementation*

If the Crisis Response Team determines that the event does require some form of immediate intervention, the Crisis Response Team will affect the necessary action, and the Investment Consultant will document the actions taken. Two of the three designated Trustees must agree on the recommended action.

- *Follow-up*

The Board of Trustees and the Investment Committee will be notified as quickly as reasonably possible by telephone and memorandum. The crisis, and subsequent intervention, will then be reviewed at the next scheduled meeting, and documented in writing.

**CRISIS RESPONSE TEAM MEMBERS**

Adopted: November 14, 2017

Updated: June 6, 2024

**Santa Barbara Foundation Investment Office**

Chief Executive Officer: Jacqueline M Carrera

Vice President, Finance and Administration: Todd Yuba

**Investment Consultant**

Meketa Investment Group: Larry Witt / Tim Filla

**Designated Trustees**

Chair of the Board of Trustees: Matt Rowe

Chair of the Investment Committee: Tracy Stouffer

Trustee and IC Member: Susan T Richards



## **Impact Investing Fund Investment Policy Statement and Sub-Committee Charter**

Adopted 9/8/2022

### **I. Introduction**

This Investment Policy Statement (“IPS”) for the Santa Barbara Foundation’s (“Foundation”) Impact Investing Fund (the “Fund”) outlines the general responsibilities and guidelines for the management of the Fund’s assets.

The Foundation is a community foundation, organized as a California nonprofit corporation and which qualifies as a tax-exempt, public charity under sections 501(c)(3) and 170(b)(1)(A)(vi) of the Internal Revenue Code. The Foundation’s Board of Directors (“Board”) is entrusted with responsibility for the prudent management and stewardship of the Foundation’s various funds, established by gifts and bequests from many donors that support a wide range of philanthropic and charitable purposes.

### **II. Purpose of the IPS**

The purpose of this IPS is to assist the Board, the Investment Committee, and its Impact Investing Sub-Committee in effectively supervising, monitoring, and evaluating investments of the Fund (responsibilities described in Section III). This IPS is intended to (i) document the Board’s expectations, objectives, and guidelines for the investment of Fund assets; (ii) set forth an investment structure for managing these assets; (iii) provide guidelines for monitoring the level of overall risk, return and liquidity; (iv) encourage effective communication between the Impact Investing Sub-Committee and the Foundation staff; and (v) establish formal criteria for monitoring and evaluating the performance results of

the Fund.

This IPS is intended to be a summary of an investment philosophy that provides guidance for the Foundation, the Impact Investing Sub-Committee and staff. It shall serve as the staff's principal source of guidance for developing appropriate strategies. In addition, it shall serve as the basis for performance evaluation.

### **III. Investment Responsibilities**

#### Board Responsibilities

The Board has the ultimate responsibility for the prudent management of the Fund's assets, and for establishing and modifying (when appropriate) this IPS. The Board has constituted an Impact Investing Sub-Committee, as a sub-committee of the Investment Committee, and delegated to it certain responsibilities for overall management of the Fund.

#### Impact Investing Sub-Committee Responsibilities and Composition

The Impact Investing Sub-Committee's authority and responsibilities and composition include:

- 1) Establishing and periodically reviewing this IPS and all related exhibits on an ongoing basis and recommending modifications to the Investment Committee and Board as may be necessary or desirable to reflect changing conditions within the Foundation or to make the policy more effective.
- 2) Overseeing the investments and reporting on performance of the Fund to the Investment Committee and Board regularly.
- 3) Establishing asset allocation strategies, Fund structures and parameters for diversification, investment amounts and sector concentration necessary to achieve the objectives of the Fund.
- 4) Monitoring investment performance and compliance with this policy.
- 5) Reporting regularly to the Investment Committee and the Board on the following subjects:
  - a. Fund investment performance summary on financial and impact returns, including comparisons to benchmarks (when appropriate benchmarks can be reasonably identified for similar impact investments)
  - b. Current and historical asset allocation by amounts invested in each impact area
  - c. Progress toward the stated performance objectives documented in this IPS
  - d. Other pertinent matters regarding the Fund's investments

- 6) Impact Investing Sub-Committee composition:
  - a. The Impact Investing Sub-Committee will have at least five members
  - b. Community members (non-trustees) may be members
  - c. A majority of Sub-Committee members must be Trustees
  - d. The Chair of the Sub-Committee must be a Trustee
  - e. At least one trustee serving on the Impact Investing Sub-Committee must also serve on the Strategy Committee, at least one must serve on the Investment Committee, and at least one must serve on the Finance and Administration Committee.
  - f. A majority of members constitutes a quorum
  - g. Sub-Committee members should have professional or volunteer experience with areas relevant to impact investing including banking & lending, legal work, real estate, affordable housing, non-profit finance, and social ventures.
- 7) The Sub-Committee will meet as needed to monitor investments and review potential transactions, typically quarterly.

#### **IV. Mission, Purpose and Investment Philosophy**

##### Mission

The mission of the Fund is to drive positive social impact in the Foundation's community through impact investing, the concept that strategically invested capital can achieve both a social outcome and a financial return. The purpose of the Fund's investments will be to support, sustain and scale philanthropic causes that provide a sustainable, long-term benefit to the community, while also striving to achieve capital preservation and a positive financial return.

##### Investment Philosophy

The Foundation's strategic plan has identified priorities as represented by the needs of the most vulnerable populations, working families, and the nonprofit sector in Santa Barbara County. Consistent with the Foundation's practices of identifying organizations and initiatives that best address the needs within each priority area, the Fund intends to make strategic investments that support positive social outcomes. As described in greater detail below in the Impact Criteria, investment decisions will first seek to qualify investment opportunities by their relative ability to create a measurable result.

Investment practices and decisions will be governed by the Foundation's belief that investing new forms of capital to address social challenges can meaningfully accelerate and scale solutions that provide

both a benefit to the community as well as a positive financial return. An intentional focus on these guiding principles will direct the Fund's investment decisions:

- Impact First Capital: The Fund's capital must influence a measurable social, community, and/or environmental improvement;
- Filling a Capital Gap: Investments must fill a gap in access to capital and be necessary to achieve the desired result due to a lack of similarly priced and structured capital opportunities in the market;
- Catalytic in Nature: Investments must enable the entity to accelerate benefit to the community;
- Persuasive Capital: The Fund's capital and engagement in a transaction should actively influence the effort to attract and deploy greater amounts of capital from other sources interested in achieving a common impact, where appropriate.

#### **IV. Investment Objectives & Criteria**

The overall investment objectives for the Fund are as follows, and as further described by the two categories of criteria described below:

- Impact: Sustain and scale community-based social change among the Foundation's priority areas by investing in social solutions for Santa Barbara County
- Financial: Preserve capital while striving to keep pace with average long-term inflation.

The Impact Investing Sub-Committee will need to continuously monitor the balance between the objectives of the impact and financial criteria of the Fund's investments, such that the priority to achieve impact does not result in undue financial risk.

#### **Impact Criteria**

The priority of the Fund will be to achieve the intended social impact. This will be assessed by the degree to which investments are consistent with the Foundation's impact-related goals and alignment with the Foundation's service area.

Impact Goals: The CEO and Cross-Functional Team (as defined in Section VI) will review prospective transactions to ensure acceptable initial alignment with the Foundation's mission and/or impact areas.

Geographies: Investments must benefit constituents, organizations or

communities within Santa Barbara County. While investees may be domiciled outside of this area, investments must be deployed for the benefit of the people in Santa Barbara County.

Impact Objectives: The measure of impact for each investment will be determined by the Foundation’s Learning and Evaluation staff. It should be noted that one of the main challenges faced by the impact investing community is how to evaluate impact, report overall returns and establish effective benchmarking; and the Fund will employ best practices in measuring impact as such practices evolve.

### **Financial Criteria**

The financial goal of the Fund will be to preserve capital and generate positive long-term returns and strive to keep pace with average long-term inflation. The following investment considerations shall be considered:

Range of Asset Classes: the primary asset class will be short to medium-term (two to seven year) interest-bearing debt; however, asset classes may also include

- cash equivalents, such as bank certificates of deposit or similar
- community investment notes
- payment guarantees
- hybrid debt/equity-like instruments which have certain liquidity, collateral or payment preferences.

Debt may include, but is not limited to:

- First mortgage financing of real estate, mezzanine or subordinated financing
- Bridge loans
- Debt with conditional or flexible repayments
- Payments based on revenue or performance
- Unsecured or under-secured loans for equipment, renovations, program launch, or working capital.

Preference for Intermediaries: the Foundation intends to deploy funds primarily by investing debt capital in established lending institutions, such as commercial banks, community development financial institutions (“CDFIs”), development authorities and other established institutions. These investments may have structures ranging from loans directly to the intermediary, loans to existing programs or pools, risk-sharing agreements, loan guarantees, side-by-side loans or purchasing participations in loans.



Direct Investments: In certain cases, which meet with the Fund's goals for the impact areas and align with other investment criteria, the Foundation may also make direct investments in nonprofit or for-profit operating entities.

Investment Amounts: In order to ensure appropriate diversification, the Impact Investing Sub-Committee (see Section VI) shall determine maximum investment amounts such that no individual investment, or pool of investments with the same repayment source, will cause an undue concentration in the portfolio. The Impact Investing Sub-Committee shall also determine the maximum amount for any single investment, as well as the process for approving exceptions to concentration policies. Portfolio concentrations shall be regularly monitored and assessed; and revisions to the policy made accordingly, as determined by the Impact Investing Sub-Committee. It should be noted that, due to the startup nature of the Fund, the portfolio will have large concentrations until adequate diversification can be achieved through the further deployment of funds.

Return Objectives: Individual investments will be underwritten with the intent to maintain the principal of the Fund, while returns for the portfolio of investments held in the Fund should maintain principal and strive to keep pace with average long-term inflation. In addition, each investment will generally seek to provide a positive financial return, though the Fund may make both market-rate and below-market rate investments. Considerations for below-market rate investments will depend on the expected degree of impact to the community. Financial returns for the portfolio shall be reported quarterly.

Risk/Credit Profile: The Fund's investments will be comprised primarily of illiquid, private debt transactions, some of which will be unsecured, under-secured or subordinated to the interests of other creditors. The Foundation will seek to mitigate risk through comprehensive underwriting, diversification, and other forms of risk mitigation. As the Fund deploys capital, certain policies for establishing and maintaining a liquidity reserve will also be put in place by the Impact Investing Sub-Committee. In transactions with intermediaries, we will request and verify third-party credit ratings when available.

Investment Horizons: The Fund shall have no single debt instrument with a maturity of more than 10 years and most investments shall

have terms between two and seven years. However, as determined by the Impact Investing Sub-Committee, investments may be extended, renewed or committed to a longer term, or have amortization periods which exceed maturity, on a case-by-case basis, if warranted by the anticipated impact value and if risks are mitigated appropriately.

## **Other Criteria**

Strategic Use of Funds: As further guide to the investment policies and decision process, the Fund's debt capital will typically fit within structures and capital stacks that include, but are not limited to:

- Bridge Financing: Capital that fills specific gaps in timing, loan-to-value ratios or project milestones, where the repayment source is known, typically from other committed capital providers;
- Building Capacity/Efficiency: Providing difficult to obtain longer term capital that has a high likelihood of demonstrating a measurable increase in the permanent sustainability, institutional capacity or reducing cost and inefficiencies;
- Advancing Opportunity: Supporting new initiatives or expansion of successful organizations in order to create or exploit new opportunities;
- Funding Innovation: Providing prudently structured, flexible debt capital for unique social innovations that have the potential for transformational change;
- Infrastructure Support: Foundational capital for supporting the growth of underlying infrastructures, such as the market expansion of intermediaries, necessary to the health and sustainability of social solutions.

Other Terms/Structures/Payments: Investments will be documented with all the necessary and applicable range of terms, provisions, reporting requirements and other conditions commonly found in loan agreements or investment documents of this type.

Investee Structures: Regarding the legal structures of investees, investments may be made to nonprofit 501(c)(3), for-profits, hybrid entities and other entities legally authorized to operate and receive investment and debt obligations. The Impact Investing Sub-Committee may determine certain types of investees that may be prohibited from receiving investments, such as PAC's.

Transaction Procedures: The operating protocols, controls and processes for disbursement, reconciliation, invoicing and other transactional procedures will be the same as those in place for the Foundation's other accounting and finance procedures.

## **V. Capital Allocations**

Initial Capitalization: The Fund has been initially funded by an allocation from the unrestricted portion of the Foundation's assets, as determined by the Board of Directors. As the Fund reaches full deployment, additions to the Fund may be considered, as determined by the Board of Directors, based on recommendations from the Impact Investing Sub-Committee. The Fund will be established as an open-ended fund, such that allocations and investments in the Fund may be made at any time and without a specific expiration or maturity of the Fund.

Separate Fund: The Fund will be managed as an independent pool of investments, apart and separate from the Foundation's existing investment pools.

Donor Capital: The Fund or the Fund's impact investments may be made available to existing and new donor-advised funds, as a separate investment choice, based on terms to be determined by the Impact Investing Sub-Committee in consultation with the Foundation's senior staff. Certain disclosures, restrictions and investment guidelines will be developed and communicated to donors as a matter of course for inclusion in the Fund.

## **VI. Investment Practices and Guidelines**

With oversight from the Impact Investing Sub-Committee, within the guidelines of the IPS, the CEO and Cross-Functional Team of Foundation staff (consisting of VPs and/or representatives from all departments of the Foundation, including Community Engagement, Finance & Administration, and Philanthropic Services) will have responsibility for employing the investment practices and guidelines necessary to manage the Fund.

Due Diligence: A due diligence review of each proposed transaction will provide necessary information to the Impact Investing Sub-Committee to assess the overall risk rating of each investment. While each investment opportunity will be subject to due-diligence by the Cross-functional Team, a more complete due diligence and underwriting report will be sought, when possible, from either the relevant intermediary or a firm experienced in due diligence and credit assessments. When available, we

will seek appropriate credit rating information on intermediaries.

### **Approval Process**

The process for approving investments will be governed by this IPS, as the Board may revise from time to time. The Board has authorized the Impact Investing Sub-Committee to review and recommend for approval individual investments and manage the Fund's portfolio of investments, as further described:

Application for Investment: To apply, potential investees will provide a brief executive summary, term sheet or investment package to the Foundation. Upon satisfactory pre-screening by the Cross-Functional Team, a more complete package of financial, operational and business information will be requested.

Investment Memorandum: The VP Finance and Administration, with assistance from available outsourced due diligence providers, will prepare an investment memorandum for consideration by the Impact Investing Sub-Committee. The investment memorandum will: a) describe the opportunity and how it aligns with the Foundation's impact criteria and metrics; b) summarize the findings from the due diligence process and outline the key risks and appropriate mitigations, and c) summarize the key investment terms for the investment, including repayment terms, maturity, collateral, if any, and interest rate.

Investment Approvals: The proposed structure for approving individual investments includes:

- After pre-screening and upon receipt of complete package, a recommendation would be made to Impact Investing Sub-Committee; upon acceptance,
- A full due diligence process would commence; upon acceptable review and recommendation to advance,
- An investment memorandum would be prepared for review by the Impact Investing Sub-Committee, which may:
  - Approve for recommendation for Investment Committee approval for recommendation to the Board, without exception;
  - Approve for recommendation for Investment Committee approval for recommendation to the Board, with conditions;

- Reject (deny the investment); or
- Request additional due diligence and resubmission.

As a practical matter, during any point of the approval process, input may be sought from members of staff and/or the Impact Investing Sub-Committee as needed. Throughout the process, the lead staff or sub-committee member may update, seek additional information from and communicate as needed with the investee.

## **VII. Investment Managing, Monitoring and Reporting**

Managing and Monitoring the Portfolio: The VP Finance and Administration and Cross-Functional Team will be responsible for appropriate oversight and monitoring of the individual investments and communicating with and following the progress of individual investees. The Foundation's finance and investment staff will be responsible for servicing all impact investments, including receiving and reporting all loan repayments, and notifying borrowers if payments are overdue. The finance and investment staff will also maintain detailed financial records on all impact investments and will produce financial status reports on a quarterly basis for the Impact Investing Sub-Committee and any participating donor-advised funds.

Ongoing Analysis and Investment Evaluation: Due to the risk profile of typical community-based impact investments, in addition to regular reporting, the VP Finance and Administration and Cross-Functional Team, along with the assistance of intermediaries and outsourced service providers, will be responsible for monitoring the progress and financial condition of investees, and providing reports and evaluations of progress to the Impact Investing Sub-Committee, as necessary.

Reporting of Social Impact Returns: The Impact Criteria described in Section IV will also be used to define the parameters for reporting impact returns, which will be issued in the same frequency, and in similar format, as the financial returns. In order to align with the metrics for measuring progress, impact returns will be categorized by the Foundation's priority areas.

Benchmarking Financial and Impact Returns: When available and to the extent applicable to investments in the Fund, the VP Finance and Administration and Cross-Functional Team will provide the most relevant and current benchmarks with reporting of the Fund's performance.

## **VIII. Operational Guidelines**

### Administrative and Review Procedures

The Impact Investing Sub-Committee will review this IPS at least annually, and any material changes, additions or omissions must be approved by the Board. The Impact Investing Sub-Committee will also generally consider any exceptions to the constraints in this IPS within the overall context of the materiality of the exception, the context of its occurrence, and the expected longevity of the exception condition.