Responsible Investment Policy

The Foundation's mission – to mobilize collective wisdom and philanthropic capital to build empathetic, inclusive, and resilient communities – extends to how the Foundation invests. For almost a century, SBF has served as a catalyst for change in Santa Barbara County, and the same intentionality that guides its grantmaking informs its approach to Responsible Investing.

A. Responsible Investment Beliefs

The Responsible Investment Policy provides an overview of how the Foundation seeks to invest responsibly through the integration of environmental, social, and corporate governance ("ESG" or "sustainability") factors into its Investment Program.

The Foundation's approach to and implementation of Responsible Investing are built on the following core beliefs:

- Financial returns are the primary objective. The Foundation's ability to fulfill its philanthropic mission depends on the long-term sustainability of its investment pools. Consistent with the Performance Monitoring provisions of the IPS, the Foundation does not expect responsible investment considerations to cause deviations from the tolerances defined for the Santa Barbara Portfolios. No investment decision should be expected to produce below-market risk-adjusted returns unless explicitly structured as a program-related investment within the dedicated Impact Investing Fund.

- Financial returns and community impact can coexist. The Foundation believes that investments aligned with its mission can be return-accretive. The investment program should reflect SBF's values wherever this can be achieved without compromising returns.

- Thoughtful alignment governs the program. SBF's responsible investment program is guided by a standard of thoughtful alignment with the Foundation's mission, values, and strategic priorities. This standard operates above a baseline of "do no harm" but does not impose a prescriptive allocation floor across the broader portfolio. Active mission expression, defined as investments that demonstrate positive outcomes for people and communities in Santa Barbara and beyond, is the program's aspiration.

- Responsible investing is iterative. Responsible Investing integration practices, manager standards, and reporting capabilities will evolve over time. The Foundation is committed to steady progress rather than rigid targets, and to transparency about where the portfolio stands at each reporting period.

B. Purpose and Scope

Purpose: The Responsible Investment Policy establishes the principles, standards, and tools that will govern how SBF integrates responsible investing considerations into its investment program in alignment with the Foundation's long-term mission and strategic priorities.

Scope: The Policy applies to the Santa Barbara Portfolios and governs all new manager selections and ongoing monitoring across the four pools managed by the OCIO. Application to private markets and liquid alternatives, such as Absolute Return strategies, is on a best-efforts basis, reflecting the limited look-through transparency available to investors. In these asset classes, responsible investing considerations are addressed primarily at the manager selection level. This process includes reviewing a manager's policies and governance, assessing how sustainability factors are integrated into investment decisions, and whether there is sufficiently detailed disclosure to investors.

The Foundation also holds invested assets outside the Santa Barbara Portfolios that are not managed by the OCIO, including the Capital Preservation Portfolio, Pooled Income Funds, Charitable Remainder Trusts, and Charitable Gift Annuity Funds. This Responsible Investment Policy does not directly govern the selection or ongoing monitoring of those assets; however, SBF encourages the managers and advisors of such assets to observe the principles of the Responsible Investment Policy on a best-efforts basis.

Governing standard: The Investment Program will be managed to ensure that no investment directly contradicts SBF's mission and values. Consistent with this approach, SBF does not maintain explicit allocation targets for responsible investment strategies. All investments are evaluated against the full universe of available investments and underwritten to achieve returns commensurate with their market risks. This includes mission-aligned investing (or Mission-Related Investing, "MRI"), which refers to deploying capital into strategies or managers expected to produce both competitive financial returns and measurable outcomes aligned with SBF's mission. Dedicated mission expression through place-based investments and Program-Related Investments ("PRIs," which are investments that prioritize impact over financial return) are housed within the Impact Investing Fund.

C. Strategy Toolkit

Exclusions

Exclusion, or negative screening, means deliberately choosing not to invest in specific companies, sectors, or industries and is applied in a manner that will be practical and consistent with fiduciary responsibility. The Foundation seeks to avoid direct exposure to companies whose primary business activities materially undermine community well-being, equity, or resilience. Examples include:

- Predatory lending
- Tobacco production
- Pornography
- Controversial weapons (cluster munitions, anti-personnel mines, biological/chemical weapons)
- Private prisons

- Thermal coal production

Fossil Fuels & Climate Change Considerations

Other than the exclusion on thermal coal production set out above, SBF does not impose a blanket exclusion on oil and gas investments. SBF's focus is on whether managers or strategies are credibly positioned to support the transition to a lower-carbon economy. Where a manager or strategy is identified as having material fossil fuel exposure (production, refining, or distribution representing more than 10% of expected fund exposure), the OCIO will assess the position using the Climate Change section of the Asset Manager Survey (outlined in Section C) as a starting point. This assessment considers whether the manager sets time-bound carbon reduction targets. The OCIO also considers the level and composition of fossil fuel exposure, the trajectory of that exposure over time, and any other relevant information about the manager's approach to the energy transition.

Exposure will be monitored on an ongoing basis as outlined in Section E.

Asset Class Scope

Exclusions apply to public market investments in liquid equity and credit. The OCIO does not have control over positions held by third party managers and, as such, there may be instances where there is some indirect exposure. In particular, there may be exposure to the above sectors via third party passive managers.

For private markets and absolute return/hedge fund strategies, exclusions are applied on a best-efforts basis at the manager selection level. The OCIO will flag material exposure conflicts identified through ongoing monitoring.

The Foundation has a bias away from the practice of divesting a manager based on specific underlying holdings. Manager divestment will only be undertaken once there is clear and persistent evidence that an investment:

1. Is ethically unjustifiable
2. Opposes the Foundation's long-term mission
3. Is exposed to excessive long-term sustainability risk

Exceptions may be made to the above investment restrictions, with prior consent from the IC. There are no other restrictions on the types of investment in which the Portfolios will invest except as proscribed by applicable law.

Priorities for Outcomes

The Foundation seeks to invest in asset managers and companies whose core practices are expected to contribute positively to community well-being, equity, and long-term resilience, while supporting competitive, risk-adjusted returns.

The Priorities for Outcomes include the following sectors and themes defined by the Foundation's Strategic Priorities:

- Housing affordability and community infrastructure
- Food security and resilient local supply chains
- Childcare and early education
- Behavioral health and healthcare access
- Workforce development and financial inclusion
- Digital equity and broadband access
- Conservation and climate resilience
- Racial equity and economic inclusion
- Performing arts

These themes may inform manager selection and sourcing on a best-efforts basis across public and private markets, with no fixed allocation required to any single theme. They are expected to evolve over time as opportunities, community priorities, and investment solutions develop.

D. Manager Standards

As sustainability considerations become an increasingly important determinant of long-term company performance, integrating financially material sustainability factors alongside traditional fundamental analysis provides asset managers with a more comprehensive view of each investment's risks and prospects. The evaluation of suitable asset managers for inclusion in the Santa Barbara Portfolios incorporates such sustainability factors across public markets and private markets investment managers.

Manager Assessment Framework

The OCIO assesses all active managers through a proprietary Asset Manager Survey conducted at the time of initial investment and refreshed on a two-year cycle, with ongoing monitoring between cycles. The survey covers six areas: (1) policies and infrastructure; (2) integration into due diligence and investment decisions; (3) approach to climate change; (4) asset class-specific practices; (5) measurement and reporting; and (6) diversity, equity, and inclusion (DEI).

Four Tiers of Responsible Investment Practices

	Public Equity, Liquid Credit, Private Equity, Private Debt, Real Estate	Absolute Return Hedge Funds, Commodities, Other Liquid Strategies
Leader	• Meet criteria required to be "Advanced" and demonstrate strong differentiating factors, e.g. use of sustainability linked loans ("SLLs") where the manager links payable interest rates to company sustainability performance, or use of a proprietary framework for assessing responsible investment factors.	

Advanced	• Highly integrated resources and tools that result in an ability to generate differentiated insights on underlying portfolio companies, create value to the point of delivering competitive advantage and expectation of better societal outcomes. • Active ownership through engagement with portfolio company management teams. • Reporting to limited partners on responsible investment activities.	• Investment process incorporates sustainability factors in decision making to the extent possible. • Reporting to limited partners on responsible investment activities. • Substantial internal policies procedures and initiatives to address the firm's environmental impact and effect on local communities.
Initiated	• Have a clear responsible investment policy. • Clearly integrate responsible investment criteria into investment decision making. • Engagement through at least proxy voting.	• Investment strategy focused on "doing no harm." • Firm's internal responsible investment policy focuses on the firm's impact on people and the planet.
Yet to Integrate	• Do not have an explicit responsible investment policy at the firm or strategy level. • Do not truly integrate responsible investment criteria into investment decision-making at a base level.	• Personnel and governance policies are below threshold.

There will be no investments in actively managed funds that are "Yet to Integrate," except where unavoidable in liquid alternatives strategies, such as Absolute Return, where the scope for responsible investing is structurally limited. For these strategies, the applicable standard is "do no harm."

The ongoing review of significant asset managers in the Portfolios will include a biennial assessment of managers' responsible investing practices. Where deficiencies are identified, the OCIO will engage with managers to encourage adoption of peer best practices.

Proxy Voting

SBF invests primarily through LP-structured funds, in which proxy voting rights attach to fund managers rather than to the Foundation. Accordingly, SBF does not retain direct proxy voting authority over portfolio companies.

For all active long-only equity managers in the portfolio, the OCIO will require that managers have a defined proxy voting policy by which they vote their shares. The content of that policy is at manager discretion, but the existence of a policy is a condition of inclusion in the portfolio.

For individual securities held directly by SBF on behalf of fundholders, such as those in Donor Advised Fund accounts managed by an investment advisor nominated by the donor and approved by the IC, proxy voting authority may be delegated to that advisor. These advisors shall vote proxies consistent with the principles of the Responsible Investment Policy on a best-efforts basis.

Diversity, Equity, Inclusion, and Access ("DEIA")

Foundation-Wide Commitment and Definitions

SBF honors and celebrates the dignity of every person and values the voices, experiences, and perspectives that make our communities stronger, especially those most affected by historical, structural, and systemic disparities. The Foundation is committed to building a community where people feel respected, reflected, welcomed, and able to contribute. SBF defines Diversity, Equity, Inclusion, and Access ("DEIA") as follows:

- Diversity is the range of identities, backgrounds, lived experiences, perspectives, and ways of being that strengthen our community. It includes differences such as race, ethnicity, culture, language, socioeconomic status, geography, nationality, religion, age, ability, gender identity and expression, sexual orientation, family structure, veteran status, life experience, as well as differences in skills, opinions, beliefs, and political/worldviews.
- Equity is the intentional alignment of resources, opportunities, and decision-making to address systemic disparities and foster fair outcomes for all, especially those most affected by historical, structural, and systemic disparities.
- Inclusion is the intentional design and ongoing practice of ensuring that people, especially those historically excluded or underrepresented, have meaningful access to participate in, influence, and benefit from an organization's decision-making, resources, and opportunities.
- Access is the removal of barriers and the intentional design of pathways so that all people, especially those historically excluded, can find, reach, and effectively use opportunities and resources.

Application within the Investment Program

The commitment and definitions above express SBF's organizational and community values. Within the investment program, SBF is committed to supporting DEIA by working with financial services firms that promote a more balanced and equitable investment industry. The Foundation seeks to engage with firms that support diversity at all organizational levels, recognizing that a balanced workforce benefits business performance, workplace culture, and investment decision-making.

SBF is committed to working with an OCIO who:

1. Incorporates diversity dimensions into manager selection
2. Incorporates diversity into ongoing manager monitoring
3. Collaborates with others in the investment industry to identify diversity and inclusion best practice

Diverse managers are defined as investment management firms where women and/or underrepresented ethnic groups are the majority (≥50%) at the 1) investment committee, and/or the 2) fund ownership level.[1] Passive investment vehicles and legacy illiquid positions not selected by the OCIO are excluded from this assessment.

The OCIO will seek out managers and strategies with diverse leadership teams and/or demonstrated commitments to DEIA, but SBF does not set a fixed allocation target to diverse managers. Instead, as part of the biennial Asset Manager Survey, the OCIO assesses asset managers' DEIA efforts, reinforces expectations for improvement over time, and supports progress through the sharing of industry best practices, with the goal of advancing DEIA commitments across the investment industry.

E. Measurement and Reporting

The IC will require transparency around and measurement of key sustainability metrics. As such, the OCIO will work to provide information on the sustainability status of the Portfolios and underlying investments for the IC to review and discuss as a separate agenda item annually as part of its review of existing portfolio managers. The data will include both (a) a review of managers' underlying holdings and (b) the results of a manager survey to assess how sustainability factors have been integrated into investment research processes and firm goals. The reporting of sustainability risks is to ensure that the Foundation can monitor, report on, and demonstrate progress over time.

[1] Underrepresented racial/ethnic groups in United States, Canada, United Kingdom and Australia in the financial services industry generally include individuals who are: Asian, Black, Hispanic / Latinx, Indigenous People, Middle Eastern / North African, and Two or More Races. In all other geographies, our definition for a diverse manager is solely defined as managers having ≥50% representation of women at the 1) investment committee and/or the 2) fund ownership level.