THE MBEF ENDOWMENT

**Manhattan Beach Education Foundation Endowment**
**(the "Endowment")**

**INVESTMENT POLICY & GUIDELINES**

## 1) INTRODUCTION AND PURPOSE

a. This statement of the Board of the Manhattan Beach Education Foundation Endowment (the "Board") sets forth the policies governing investment of the Endowment's assets.

b. The purpose of this statement is to insure the prudent management and distribution of the assets of the Endowment. Additionally, this statement is meant to foster a clear understanding of the Endowment's investment objectives, policies and guidelines among the Board, the Committee, the staff, and the Endowment's investment managers. This policy will also assist in assuring donors and prospective donors that funds donated to the Endowment are managed and distributed prudently.

c. The Investment Committee of the MBEFE (the "Committee") is responsible for recommending and implementing the investment objectives and policies for the financial assets of the Endowment. The objectives and policies described here will be used as the criteria for selecting and evaluating the appropriate investment managers, investment vehicles, and/or investment funds for the management of the assets of the Endowment. The Committee has the responsibility to:

   i. Recommend changes in investment policy to the Board;

   ii. Implement approved policy, guidelines, and objectives;

   iii. Select or terminate investment managers, investment vehicles, investment funds, investment consultants, administrators, and/or custodians;

   iv. Implement and monitor asset allocation strategy;

   v. Analyze, research, and assist in formulating appropriate spending policies;

   vi. Prepare reports to the Board; and,

   vii. Perform other investment-related tasks as assigned by the Board.

d. The assets governed by this statement include all of the Endowment's financial assets.

e. It is the intention of the Board and the Committee to comply with the **Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA")**. UPMIFA provides guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations. UPMIFA also imposes certain additional duties on those who manage and invest charitable funds. These duties provide additional protections for charities and also protect the interest of donors who want to see their contributions used wisely. UPMIFA outlines rules governing expenditures from endowment funds, both to provide strict guidelines on spending from endowments and to give institutions the ability to cope more easily with fluctuations in the value of the endowment.

In addition to incorporating the underlying principles of the Uniform Prudent Investor Act of 1994, UPMIFA requires a charity and those who manage and invest its funds to:

i. Give primary consideration to donor intent as expressed in a gift instrument,

ii. Act in good faith, with the care an ordinarily prudent person would exercise,

iii. Incur only reasonable costs in investing and managing charitable funds,

iv. Make a reasonable effort to verify relevant facts,

v. Make decisions about each asset in the context of the portfolio of investments, as part of an overall investment strategy,

vi. Diversify investments unless due to special circumstances, the purposes of the fund are better served without diversification,

vii. Dispose of unsuitable assets, and

viii. In general, develop an investment strategy appropriate for the fund and the charity.

f. The Chief Investment Officer shall act as the primary contact between the Endowment and the investment managers.

g. No person who sits on the Committee may have a conflict of interest with respect to investment of the Endowment's assets or implementation of the Endowment's investment strategy and spending policies, and Committee members shall avoid even the appearance of a conflict. It is not possible to define in advance all circumstances that might constitute a conflict of interest or the appearance of a conflict. By way of example only, a person has such a conflict of interest if the person or a family member would incur a material financial gain or loss as a result of any Committee decision. No Committee member should be employed by any person or firm who serves as an investment manager for the Endowment. A person does not have a conflict of interest merely because that person is an employee of a public company, holds less than 5% of the stock of a public company, owns any fixed income security, or owns shares of a mutual fund, in which the Endowment is or may be invested.

h. The Committee will review this statement as needed, but at least annually, to ensure its continued appropriateness. Any changes to this policy must be approved by the Board.

i. It is the intent of this statement to be sufficiently specific to be meaningful, yet flexible enough to be practical. These policies should reflect funding needs, financial status, and philosophy of the Endowment regarding the investment and distribution/spending of the assets.

**2) MANAGEMENT AND INVESTMENT OBJECTIVES**

a. Investments will be made in keeping with the overall mission of the Endowment to support and fund both ongoing (current) and future programs and activities as approved by the Board. These programs and activities supplement public funding of the Manhattan Beach United School District and are designed to benefit public education in Manhattan Beach.

b. All financial assets of the Endowment shall be managed using reasonable care, skill, and caution, and this standard shall be applied to the total portfolio of investments of the Endowment. The evaluation of any investment shall be as part of the total portfolio, rather than as to the individual investment alone. The tradeoff in all investing between risk and return is identified as the Committee's primary concern. The Committee's investment and management decisions with respect to individual assets and courses of action must be evaluated not in isolation, but in the context of the Endowment's investment portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Endowment.

c. Investments are to made in accordance with the overall risk and return objectives of the Endowment, as follows:

Endowment Fund Investment Objectives: Capital Growth.

The primary long-term financial objective of the Endowment is to increase the real (i.e., inflation-adjusted) purchasing power of the Endowment net of distributions for grants and expenses — also known as the pursuit of "intergenerational equity". This objective should be achieved over rolling five- to ten-year periods on a total return basis, after accounting for any management fees and operating expenses. An additional objective is to provide a relatively predictable and stable stream of income available for distributions for grants in later years after the Endowment has grown. Until such time as the Endowment reaches a target size to be determined by the Board, all interest, dividends, capital gains, and other proceeds shall be reinvested in the Endowment.

d. Engagement of Outside Investment Management and Gift Administration Services — contracts for external investment management and gift administration services may be entered into as needed and determined by the Board (e.g., the California Community Foundation). It is envisioned that such arrangements may be deemed economically efficient/expeditious, especially with regard to directed gifts and other, more involved forms of gift administration.

## 3) ASSET ALLOCATION GUIDELINES

The asset allocation guidelines for the Endowment Fund are outlined in the table below and are designed to achieve the overall investment objectives of the account.

| | **Minimum** | **Target Allocation** | **Maximum** |
|---|---|---|---|
| **Equities** | 0 | 60 | 100 |
| **Fixed Income** | 0 | 30 | 100 |
| **Alternative Investment** | 0 | 10 | 30 |

| | | | |
|---|---|---|---|
| **Cash & Cash Equivalents** | 0 | 0 | 100 |

**4) GUIDELINES FOR EQUITY INVESTMENTS**

a. Equity investments shall include individual common and preferred stocks of domestic and international companies, exchange traded baskets of stocks ("ETFs"), and equity mutual funds.

b. The performance of equity portfolios will be measured against industry standard and relevant benchmarks including, but not limited to:

   i. S&P500 for domestic large capitalization equities;

   ii. S&P600 for domestic small capitalization equities;

   iii. EAFE for international equities (including emerging markets);

   iv. Morningstar and/or Lipper Mutual Fund averages; and

   v. Other indices as warranted.

c. The Endowment account's equity holding should be well diversified across economic sectors, investment style (growth/value) and capitalization ranges. No more than 5% of the market value of the Endowment should be invested in any single equity security. If a single security increases in value to become more than 5% of the Endowment, enough of it shall be sold as soon as practical, given liquidity and other market conditions, to reduce the holding to less than 5%.

**5) GUIDELINES FOR FIXED INCOME INVESTMENTS**

a. Fixed Income investments are defined as fixed or variable rate debt obligations of the U.S or foreign governments and agencies, municipalities, or private corporations with a maturity typically exceeding one year but less than thirty years. Mortgage backed securities (MBS) and Asset backed securities (ABS) are to be included in this definition. Fixed income mutual funds that invest predominately in such securities are also permissible investments.

b. Individual fixed income investments should be rated investment grade or above based on the credit quality ratings of Moody's, Standard & Poor's or equivalent nationally recognized credit rating agencies.

c. The performance of fixed income portfolios will be measured against industry standard and relevant benchmarks including, but not limited to:

   i. Barclays/(Lehman) Aggregate Bond Index for investment grade domestic bonds;

   ii. Barclays/(Lehman) High Yield Bond Index for high yield bonds;

   iii. Salomon Smith Barney International Bond Index for international bonds;

   iv. Morningstar and/or Lipper Mutual Fund averages; and

   v. Other indices as warranted.

d. In general, fixed income portfolios should be well diversified with respect to economic sector, financial sector, and issuer in order to minimize risk exposure. A maximum of 5% of a portfolio at market may be invested in the securities of any single issuer, except that issues of the U.S. Government or agencies of the U.S. Government may be held without limitation. Notwithstanding the foregoing, the Endowment may hold to maturity (or for such lesser time as the Investment Committee deems prudent) fixed income securities that exceed the 5% limitation, provided those securities were in the portfolio at the time this policy was adopted.

**6) GUIDELINES FOR CASH AND CASH-EQUIVALENT INVESTMENTS**

a. The following debt instruments, with a maturity of one year or less, are to be considered permissible cash and cash-equivalent investments:

   i. Treasury Bills;

   ii. U.S. Agency and Federal Discount Notes (including Variable Rate Notes or “VRNs”);

   iii. Government and Corporate debt securities with less than one year to maturity;

   iv. Short-term (less than a year) municipal debt;

   v. Commercial Paper;

   vi. CD’s;

   vii. Money Market Mutual Funds; and

   viii. Savings and checking accounts.

b. Credit quality on all securities shall be of the highest quality (A1/P1, AAA/Aaa, MIG1, etc.).\

c. Generally, investments described in subsections (a)(iii)-(a)(v) above should be well diversified across issuer, with no more than 5% of the Endowment’s assets (at time of purchase) in any single security and no more than 10% with any single issuer. Additionally, FDIC insurance limits, where applicable, will be taken into account and may further restrict investment concentrations at any one institution. However, exceptions to these guidelines may be made due to liquidity, odd-lot trading restrictions, minimum size purchase requirements, or other investment considerations that the Committee believes may outweigh the desire to limit concentrations to 5%.

**7) GUIDELINES FOR ALTERNATIVE ASSETS**

a. Alternative asset investments include, but are not limited to, real estate, REITs, venture capital, private equity (“buyout funds”), oil and gas, and commodities. No more than 5% (at time of purchase) of the Endowment will be invested with any single Alternative Asset manager.
b. In general Alternative Asset investments will be viewed as equity investments and expected to produce returns that are competitive with or superior to the long-term returns of common stocks in order to compensate for the loss of liquidity and risk inherent in these investments. However, return expectations

will vary greatly depending on the investment strategy. Individual performance benchmarks and guidelines will be established for each Alternative Asset manager reflecting their specific investment strategy.

**8) GUIDELINES FOR TRANSACTIONS/TRADING**

Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best realized net price given the prevailing market circumstances at the time of the trade. Notwithstanding the above, the Committee may authorize payment of appropriate commissions as payment for services rendered.

**9) MONITORING OF OBJECTIVES, INVESTMENT MANAGERS AND RESULTS**

a. All objectives and policies are in effect unless modified by the Board.

b. The Committee shall formally review all investments of the Endowment on a regular basis, but no less than quarterly. Formal reviews should include, but not be limited to, a review of the individual holdings in the Endowment and Operating Account, trading activity, asset allocations, investment performance relative to the relevant investment and competitive benchmarks, and a review of all fees and expenses for reasonableness and competitiveness.

c. Each Investment Manager is expected to operate within its specific asset allocation designation, subject to the instructions given by the Committee. Within its objectives, each will pursue its own strategy. The managers will:

i. Execute discretionary authority unless otherwise contracted;

ii. Provide written documentation at least quarterly activity and valuations, including performance measures and other information as requested;

iii. Vote all proxies and other required actions on behalf of the portfolio;

iv. Notify the Committee of any litigation or violation of securities regulations that may adversely affect the portfolio;

v. Notify the Committee of any material changes in personnel or ownership of the investment management firm; and

vi. Report to the Committee chairperson or designee any significant issues that may affect the portfolio on both a regular and ad hoc basis.

**10) INVESTMENT RESTRICTIONS**

a. Transactions of the following nature are generally prohibited, but may be utilized as part of a more comprehensive investment strategy by a selected investment manager or mutual fund:

   i. Short selling;

   ii. Buying securities on margin;

iii. Pledging assets of the Endowment for any reason;

iv. Buying or selling any uncovered options, futures, commodity, currency, or other contract, except where used within an otherwise permissible mutual fund; and

v. Any other investment or investment vehicle not otherwise previously described in this document, without the express consent of the Committee.

b. Mutual funds that invest across asset classes, such as balanced funds that hold both equity and fixed income assets, are acceptable investments provided they otherwise meet the Endowment's investment policies.