



SANTA BARBARA FOUNDATION

INVESTMENT POLICY STATEMENT

Presented
August 22, 2018

Table of Contents

	Page
I. Introduction and Purpose	2
II. Santa Barbara Foundation Goals	2
III. Responsibilities of the Foundation Representatives	3
a. The Board of Trustees	3
b. The Investment Committee	3
c. The Investment Consultant	4
d. The Foundation Staff	5
e. The Custodian Bank	6
f. Investment Managers	7
IV. Investment Objectives	8
a. Risk Objectives	8
b. Return Objectives	8
V. Investment Constraints	8
a. Legal and Regulatory	8
b. Time Horizon	9
c. Liquidity	9
d. Tax Considerations	9
VI. Total Return Policy	9
VII. Spending Policy	9
VIII. Risk and Return Considerations	10
IX. Diversification	10
X. Active vs. Passive Management	11
XI. Asset Allocation	11
a. Permissible Asset Classes	11
b. Expected Returns, Risk and Correlations	11
c. Long-Term Target Allocations	12
d. Rebalancing	12
XII. Review of Investment Policy, Asset allocation and Performance	13
XIII. Investment Costs	13
XIV. Voting Proxies	13
XV. Conflicts of Interest	14
XVI. Related Party Transactions	14
XVII. Procedure for Revising Guidelines	14

Table of Contents - Appendices

	Page
A. Long-Term Endowment	15
B. Focus Growth Blend	17
C. Focus Income Blend	19
D. Socially Responsible Investment Portfolio	21
E. Capital Preservation Portfolio	23
F. Pooled Income Funds	24
G. Charitable Remainder Trusts	26
H. Donor-Advised Funds	28
I. Charitable Gift Annuity Funds	29
J. Permissible Asset Classes	33
K. Twenty-Year Capital Market Expectations	34
L. Asset Class Performance Measurement	35
M. Asset Class Correlations	36
N. Gifts of Securities	37
O. Policies and Procedures for Fair Value Measurement of Investments	38
P. Investment Policies for Investment Managers	42
Q. Crisis Response Plan	43

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 determining 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 A through I.

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.¹

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.

¹ 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 5.0% of the average fund balance. The average fund balance is calculated using the daily average market values of the prior 3 years as of September 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 September 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 A through I**, 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 J 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 K lists the expected return and volatility for each permissible asset class and Appendix M 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

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

By Function	Policy Target (%)	Policy Range (%)
Growth	43	33-53
Global Equity	31	21-41
Private Equity	12	7-17
Income	12	7-17
High Yield Bonds	6	2-10
Bank Loans	3	0-6
Emerging Market Bonds	3	0-6
Inflation Hedges	22	17-27
TIPS	6	2-10
Real Estate	8	4-12
Natural Resources	4	0-8
Infrastructure	4	0-8
Risk Mitigating	21	16-26
Investment Grade Bonds	17	12-22
Long-Term Government Bonds	4	0-8
Risk Mitigating/Hedge Funds	-	0-5
Cash	2	0-4
<i>Expected Return (20 years)</i>	7.03	
<i>Standard Deviation (annual)</i>	11.38	

IV. Performance Measurement and Evaluation

The return of the Endowment will be measured against a strategic benchmark, a blended benchmark that mirrors the strategic asset allocation detailed above. As the Endowment'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 L.

APPENDIX B

FOCUS GROWTH BLEND

I. Investment Objectives

The objective of the subaccount, as determined by the Committee, is to achieve a total return equivalent to that of the Long-Term Endowment. 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 is expected to exhibit slightly higher volatility than the Long Term Endowment.

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

By Function	Policy Target (%)	Policy Range (%)
Growth	46	36-56
Global Equity	46	36-56
Private Equity	-	-
Income	13	8-18
High Yield Bonds	6	2-10
Bank Loans	4	0-8
Emerging Market Bonds	3	0-6
Inflation Hedges	20	15-25
TIPS	7	3-11
Real Estate	5	0-10
Natural Resources	4	0-8
Infrastructure	4	0-8
Risk Mitigating	18	13-23
Investment Grade Bonds	12	7-17
Long-Term Government Bonds	6	2-10
Risk Mitigating/Hedge Funds	0	-
Cash	3	1-5
<i>Expected Return (20 years)</i>	7.0	
<i>Standard Deviation (annual)</i>	12.40	

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 L.

APPENDIX C

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 3% 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 (%)
Growth	22	17-27
Global Equity	22	17-27
Private Equity	-	-
Income	9	4-14
High Yield Bonds	3	0-6
Bank Loans	3	0-6
Emerging Market Bonds	3	0-6
Inflation Hedges	20	15-25
TIPS	12	7-17
Real Estate	4	0-8
Natural Resources	-	-
Infrastructure	4	0-8
Risk Mitigating	39	29-49
Investment Grade Bonds	30	20-40
Long-Term Government Bonds	9	4-14
Risk Mitigating/Hedge Funds	-	-
Cash	10	0-20
<i>Expected Return (20 years)</i>	<i>5.5</i>	
<i>Standard Deviation (annual)</i>	<i>7.21</i>	

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 L.

APPENDIX D

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 (%)
Growth	70	60-80
Global Equity	70	60-80
Private Equity	-	-
Income	-	-
High Yield Bonds	-	-
Bank Loans	-	-
Emerging Market Bonds	-	-
Inflation Hedges	-	-
TIPS	-	-
Real Estate	-	-
Natural Resources	-	-
Infrastructure	-	-
Risk Mitigating	27	17-37
Investment Grade Bonds	27	17-37
Long-Term Government Bonds	-	-
Risk Mitigating/Hedge Funds	-	-
Cash	3	1-5
<i>Expected Return (20 years)</i>	6.7	
<i>Standard Deviation (annual)</i>	12.70	

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 L.

APPENDIX E

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 F

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 (%)
Income	90	
Investment Grade Bonds	90	
Cash	10	

Income and Growth Fund

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

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 L.

APPENDIX G

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 (%)
Equities	50	60	70
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
Fixed Income	25	35	45
Real Assets	0	0	10
Cash Equivalents	0	5	20

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 H

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 I

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 (%)
Equities	30	40	50
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
Fixed Income	45	55	65
Real Assets	0	0	10
Cash Equivalents	0	5	20

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 J

PERMISSIBLE ASSET CLASSES

Asset Class
Cash Equivalents ¹
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
Private Equity/Debt
Real Estate
REITs
Natural Resources (Public)
Natural Resources (Private)
Infrastructure (Public)
Core Infrastructure
Hedge Funds

¹ 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 K

TWENTY-YEAR, SINGLE ASSET CLASS AND SUB-ASSET CLASS FORECAST AS OF DECEMBER 31, 2016

<i>Asset Class / Sub-Asset Class</i>	Expected Return (%)	Standard Deviation of Expected 20-Year Annual Return (%)
Cash Equivalents	2.8	1.0
TIPS	3.5	7.5
Long-term Government Bonds	3.8	12.5
Investment Grade Bonds	3.5	4.0
Bank Loans	5.5	10.0
High Yield Bonds	6.0	12.5
Emerging Market Bonds	6.6	13.2
Global Equity	7.9	19.0
U.S. Equity	7.5	18.0
U.S. Large Cap	7.6	17.5
Private Equity/Debt	9.2	24.0
Real Estate	6.9	18.0
REITs	6.5	29.0
Natural Resources (Public)	7.0	24.0
Natural Resources (Private)	8.4	23.0
Infrastructure (Public)	7.4	19.0
Core Infrastructure	6.8	16.0
Hedge Funds	5.3	9.5

APPENDIX L

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 ¹
Global Equity	MSCI ACWI Index
U.S. Equity	Russell 3000 Index
U.S. Large Cap	S&P 500 Index
Private Equity/Debt	Cambridge Associates Funds of Funds Index
Real Estate	NCREIF ODCE Equal Weighted
REITs	FTSE EPRA/NAREIT Developed Liquid Index
Natural Resources (Public)	S&P Global Natural Resources Index
Natural Resources (Private)	CPI + 4%
Infrastructure (Public)	S&P Global Infrastructure Index
Core Infrastructure	CPI + 3%
Hedge Funds	HFRI Hedge Funds of Funds Index

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

APPENDIX M
EXPECTED CORRELATIONS AMONG ASSET CLASSES AND SUB-ASSET CLASSES
AS OF DECEMBER 31, 2016

Asset Class/ Sub Asset Class	IGBs	Gov't Bonds	TIPS	High Yield Bonds	Bank Loans	EM Bonds	US Equity	Global Equity	Private Equity/ Debt	Real Estate	REITs	Natural Resources (Public)	Natural Resources (Private)	Infra (Public)	Core Infra	Hedge Funds
Investment Grade Bonds	1.00															
Long-term Government Bonds	0.85	1.00														
TIPS	0.80	0.60	1.00													
High Yield Bonds	0.20	-0.20	0.30	1.00												
Bank Loans	0.00	-0.35	0.20	0.80	1.00											
Emerging Market Bonds	0.50	0.25	0.50	0.70	0.40	1.00										
US Equity	0.05	-0.30	0.00	0.70	0.60	0.60	1.00									
Global Equity	0.05	-0.25	0.10	0.70	0.60	0.60	0.90	1.00								
Private Equity/Debt	0.05	-0.15	0.05	0.65	0.65	0.50	0.85	0.80	1.00							
Real Estate	0.20	0.05	0.10	0.50	0.45	0.30	0.50	0.45	0.45	1.00						
REITs	0.15	-0.10	0.20	0.70	0.55	0.50	0.70	0.70	0.45	0.80	1.00					
Natural Resources (Public)	0.00	-0.30	0.15	0.55	0.45	0.55	0.75	0.80	0.60	0.50	0.50	1.00				
Natural Resources (Private)	0.10	-0.15	0.10	0.45	0.40	0.50	0.65	0.60	0.55	0.45	0.35	0.95	1.00			
Infrastructure (Public)	0.20	-0.10	0.30	0.70	0.55	0.65	0.80	0.85	0.55	0.55	0.70	0.80	0.65	1.00		
Core Infrastructure	0.30	0.15	0.30	0.60	0.50	0.50	0.55	0.65	0.45	0.60	0.45	0.60	0.60	0.90	1.00	
Hedge Funds																

APPENDIX N

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 O

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. 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 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 account 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 P

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 Q

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 five entities:

1. the Director of Investments,
2. the Foundation's Investment Consultants,
3. the Chair of the Investment Committee,
4. the Chair of the Board of Trustees,
5. 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 five parties. However, if the Director of Investments is unavailable, the Foundation's Investment Consultant is empowered to act alone in conjunction with 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 Director of Investments will consider the nature and severity of the event. After evaluating the event fully, the Investment Consultant and Director of Investments 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 effect 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:

Updated:

Santa Barbara Foundation Investment Office

Director of Investments:

Name

Phone: ()

Fax: ()

Investment Consultant

Meketa Investment Group:

Consultants assigned

Phone: (781) 471-3500

Fax: (781) 471-3411

Designated Trustees

Chair of the Board of Trustees:

Name

Phone: ()

Fax: ()

Chair of the Investment Committee:

Name

Phone: ()

Fax: ()

Trustee and IC Member:

Name

Phone: ()

Fax: ()