Santa Barbara Foundation

SANTA BARBARA
FOUNDATION

STATEMENT OF INVESTMENT POLICY

October 2003
Revised February 2005
Revised June 2005
Revised November 2005
Revised June 2006
Revised October 2006
Revised March 2007
Revised September 2007
Revised February 2008
Revised February 2011
Revised November 2011
Revised August 2012
Revised November 2013
Revised August 2014
Revised May 2015
Revised August 2016
Revised August 2017

TABLE OF CONTENTS

Statement of Investment Policy for the Santa Barbara Foundation

EXECUTIVE SUMMARY

- 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 Account (*the "Account"*). If funds are identified to entail a specific investment or spending requirement different from the Account, 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 Board of Trustees (*the "Board"*), ultimately, is responsible for making the decisions that affect the Foundation's Account and subaccounts. The Board receives information and recommendations from the Investment Committee (*the "Committee"*).

- The Asset Allocation Policy is, arguably, the most important decision made by the Board with regard to the Account or subaccounts. The Board is responsible for determining the Asset Allocation Policy, which includes approving broad asset allocation ranges, and the investable asset classes.

- The Board is willing to accept an overall level of risk commensurate with the Asset Allocation Policy.

- The Committee has authority to hire and fire investment managers without Board approval provided those decisions adhere to the Board-approved Policy Asset Allocation and to all other requisites for investment managers as set forth in the Investment Policy Statement.

- The Committee is charged with determining the Target Asset Allocation, which includes specific allocations to each investable asset class, and is charged with superintending and managing the investment of the Account and subaccounts on an oversight basis.

- The Committee shall review the performance of the Investment Advisor regularly, and when appropriate recommend an Investment Advisor for Board approval. The Board retains sole authority to hire and fire the Investment Advisor.

- The Long-Term Objective of the Account is to achieve a total return equal to or in excess of the Account's financial requirements over the Time Horizon. The objective is to earn a total rate of return that will meet or exceed the sum of the Foundation's spending rate, the inflation rate, a rate to meet investment management/consulting fees and administrative costs, and any growth factor, which the Committee may, from time to time, recommend to the Board, and the Board approve.

- The Investment Advisor is charged with monitoring the Account's performance and recommending investment strategies to the Committee. The Investment Advisor is also charged with monitoring all subaccounts as specified in their contract, and recommending appropriate investment strategies.

- Investment Managers are required to invest assets in accordance with the guidelines and restrictions dictated by the Statement of Investment Policy.

- Investment Managers are required to demonstrate acceptable performance relative to a target benchmark and volatility of returns.

INTRODUCTION AND PURPOSE

This Statement of Investment Policy is set forth to:

1. Define the investment policies, guidelines and objectives governing the various assets for which the Foundation is responsible.

2. Create a framework from which the Committee can evaluate performance, explore new opportunities, and make recommendations to enhance the investment portfolio.

3. Provide guidance for, expectations of, and limitations on, all parties bearing investment responsibilities for the Foundation.

4. 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 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.

The Foundation is responsible for all assets in the Account and 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 subaccount guidelines may be contained in separate Appendices to this Policy.

SCOPE OF POLICY

This Statement of Investment Policy applies to all investable assets of the Foundation. In order to accommodate the various purposes of the Foundation's assets, separate pools have been established, as follows:

The Account: The Account contains both restricted and unrestricted funds. Restricted funds are defined as funds contributed with specific spending requirements. Distributions will be made from the restricted funds in accordance with the Foundation's Spending Policy for Restricted Funds as amended from time to time.

Unrestricted Funds are defined as those contributed without specific spending requirements. Sources of funds for this category include unrestricted bequests, unrestricted annual gifts, and administrative fees assessed by the Foundation. The Board has control over investment decisions of both restricted and unrestricted funds.

Specialized subaccounts: Special accounts may be established to meet unique donor requests, or spending requirements. These currently include the Focus Growth and Focus Income Blend, SRI, Capital Preservation, the local bank trusts, particular donor-advised funds, gift annuities, pooled income funds, and charitable remainder trusts. These are established to fulfill specified investment guidelines or spending requirements. The Committee or a designated sub-committee monitors the performance of these accounts and reports it to the Board.

DELEGATION OF RESPONSIBILITIES

Relationship between Board and Investment Committee

The Board, ultimately, is responsible for making the decisions that govern all aspects of the Foundation's investments. The Board has created the Committee to coordinate the activities of Investment Managers, the Investment Advisor and the Custodian, and to study issues pertinent to the Account. The Board has delegated authority to the Committee to study investment options on behalf of the Board in the performance of the Committee's delegated responsibilities as set forth below. The Committee shall make recommendations to the Board, and the Board shall act on those recommendations as it deems fit.

Investment Committee

The Board sets investment objectives and performance measurement standards. In turn, the Board has delegated to the Committee the responsibility to oversee the Account's and all subaccounts' investment management on its behalf. 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 Account. 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 Account 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 Account and all subaccounts. The Committee will require the Investment Managers to adhere to any policies adopted by the Board.

The Committee's responsibilities include:

1. Reviewing recommendations from the Investment Advisor,
2. Recommending investment policy for Board approval,
3. Recommending Investment Advisors, Custodians, and other Advisors for Board approval,
4. Developing investment policy guidelines,
5. Developing investment objectives and performance measurement standards that are consistent with the financial needs of the Foundation,
6. Recommending the Policy Asset Allocation ranges,
7. Implementing rebalancing strategies and designing a Target Asset Allocation that conforms to the approved Policy Asset Allocation ranges.
8. Reviewing and evaluating investment results in the context of predetermined performance standards, and implementing corrective action as needed,

9. Reporting to the Board,

10. Recommending Spending Policy guidelines to the Audit and Finance Committee.

And as resolved by the board:

11. 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.

12. Delegating to an Investment Sub-Committee as appointed by the Board to approve, on behalf of the Investment Committee, and consistent with the Investment Policy Statement, changes to the tactical tilt strategy positions. This authority is limited to changes of up to 3% of the portfolio's value. All votes must be by unanimous vote or the action must be approved by the Investment Committee. Any such changes are promptly reported to the Investment Committee via email

Investment Advisor

The Committee may recommend the engagement of an independent investment-consulting firm to assist the Foundation in the attainment of the Account's and subaccounts' objectives and to monitor compliance with the stated investment policies. The Investment Advisor is expected to be proactive in recommending changes in investment strategy, asset allocation, and investment managers if the situation warrants change. The Investment Advisor's responsibilities are as follows:

1. Assisting in the development of investment policies, objectives, and guidelines,

2. Preparing asset allocation analyses as necessary and recommending asset allocation strategies with respect to the Account's and subaccounts' objectives under their review,

3. Recommending Investment Managers (including search and selection),

4. Preparing and presenting performance evaluation reports in accordance with Association of Investment Management and Research promulgated standards,

5. Attending Committee meetings to present evaluation reports on a quarterly basis and at other meetings on an "as needed" basis,

6. Reviewing and developing special investment strategies that complement existing asset classes or strategies to be considered by the Committee,

7. Communicating investment policies and objectives to the Investment Managers, monitoring their adherence to such policies and reporting all violations,

8. Notifying the Committee of any significant changes in personnel or ownership of the firm,

9. Assisting the Committee in special tasks,

10. Notifying the Committee immediately of any litigation or violation of securities regulations in which any Investment Manager is involved,

11. Notifying the Committee of any significant changes in portfolio managers, personnel or ownership of any investment management firm,

12. Assisting in the rebalancing of the portfolios,

13. Evaluating the Account and all subaccounts under their review,

14. Providing research on specific issues and opportunities, and

15. Being proactive with management and the Committee in the management of the Account.

16. Investment Advisor is able to act as custodian and execute trades.

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. 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 Account.

The Investment Managers' responsibilities are as follows:

1. Investing assets under their management in accordance with agreed upon guidelines and restrictions,

2. Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions,

3. Providing written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a monthly basis in addition to other information as requested by the Committee or Investment Advisor,

4. Voting proxies for the assets under management (companies held within the portfolio) in the best interest of the Account, and

5. 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).

The Account Custodian's responsibilities are as follows

1. Providing timely reports detailing investment holdings and account transactions monthly to the Foundation and Investment Advisor.

2. 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:

    a. Statement of all property on hand,

    b. Statement of all property received representing contributions to all Accounts,

    c. Statement of all sales, redemptions, and principal payments,

    d. Statement of all spending from all Accounts,

    e. Statement of all expenses paid,

    f. Statement of all purchases, and

    g. Statement of all income.

3. Establishing and maintaining accounts for Investment Managers of the Accounts,

4. Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of cash, etc., and

5. Preparing additional accounting reports as requested by the Foundation, Board, Committee, or Investment Advisor.

INVESTMENT POLICIES AND OBJECTIVES

General Investment Philosophy

Objective: The Objective and general investment criteria of the Account or separately designated subaccounts shall be described in **Appendix A**, **B,** and **Appendix C** of this document.

The investment objective of the Foundation's Account (or subaccounts) is based on the Account's investment horizon, allowing interim fluctuations to be viewed in an appropriate perspective. While there cannot be complete assurance that the defined objectives will be realized, it is believed that the likelihood of their realization is enhanced by diversifying the Account (or subaccounts).

Over time, the Foundation's Account (or subaccounts) will aim to achieve its specific Objective while maintaining acceptable risk levels. To accomplish this goal, the Account and subaccounts will diversify assets among several asset classes.

Volatility and Risk

The Committee further believes that the greatest investment risk the Account faces is the probability of failing to meet the Account's Objective over the Time Horizon. Therefore, to minimize the probability of failure, thereby minimizing risk, the following variables should be considered by the Committee in all aspects of the decision-making process with regard to the Account's investable assets:

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

Spending Rate Policy

Sources of Spending

The Spending Rate Policy, as well as the Spending Rate, may differ among the subaccounts due to the various purposes and time horizons of each investment pool. The application of these elements for the Account is fully described in **Appendix A** and **Appendix B**.

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.

Asset Allocation

The Board-approved Policy Asset Allocation, are presented in **Appendix A**, 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 Advisor and reviewed from time to time, in depth, by the Committee. However, some factors may impact the Target Asset Allocation, thereby requiring an asset allocation review and possible rebalancing. Some of these factors include:

1. The Committee's assessment of the intermediate or long-term outlook for different types of asset classes and styles,

2. The Investment Advisor's assessment of the intermediate or long-term outlook for different types of asset classes and styles and,

3. Divergence in the performance of the different asset classes and styles.

Portfolio Rebalancing

The Investment Committee has established specific targets for each asset class in the Long Term Endowment Portfolio (the Account) and the Focus Growth and Focus Income Blend Portfolios. 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. Rebalancing is appropriate if individual marketable asset class allocations differ by more than 20% of their target weight and if this percentage deviation is at least 2%.

> *Example: The Bank Loans asset class has a target allocation of 3.0%. The actual allocation is at 5.4%.Thus the 2.4% difference (5.4% minus 3.0%) exceeds the 2.0% minimum percentage deviation threshold. In addition, the 2.4% difference is more than 20% of target weight (20% of 3% target is .6%). Therefore, rebalancing is appropriate in this example.*

The Investment Advisor will inform the Foundation staff each quarter in which rebalancing is necessary. It is expected that a rebalance may be needed at least annually based on stated criteria. Rebalancing may be delayed if, for example, prevailing market conditions are such that rebalancing may be detrimental to the Foundation's long term goals for the Portfolio. Additionally, rebalancing may be completed if approved by the Investment Committee in special circumstances, outside the criteria listed above.

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

Permissible Investments

The Policy Asset Allocation of the Account is expected to include a wide range of asset classes. All asset classes are allowed unless specifically excluded.

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.
- *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.
- *Related Party Transaction:* The Foundation will not loan funds to related parties, defined as an officer, Committee member, employee, or donor, either current or prospective.

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.

Investment Policies and Performance Goals for Investment Advisor

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

- Ability to meet or exceed the performance objectives stated in **Appendix A** (and **Appendix B** if the Committee has engaged Advisor to advise on investment strategies for subaccounts) to the Investment Policy Statement.
- 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 advisor shall immediately notify the Committee or staff in writing of any material changes in its investment outlook, strategy, portfolio-structure, ownership or senior personnel.

Although there are not strict guidelines that will be utilized when determining whether the investment advisor will be retained, the Committee, or Board, will consider the length of time the firm has been in existence, its track record, fees, and assets under management.

Social Investing Guidelines

Securities purchased in the name of the Santa Barbara Foundation are considered with sensitivity to the mission, policies and standards of the Foundation. The Foundation, where practicable, has adopted a no-tolerance policy to tobacco. Specifically, investment managers are instructed to avoid investing in companies whose primary revenues are derived from tobacco. There may be instances, however, where such information may not be available, or where such investment restrictions by the Foundation may not be practicable. This can occur either for certain asset classes or for certain investment vehicles. In these cases, the Investment Committee will determine if the asset class or investment vehicle is acceptable.

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.

Conflicts of Interest

All persons responsible for investment decisions or who are involved in the management of the Account 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 Account 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 Account's custodian(s), Investment Managers, or Investment Advisor in the course of their services on behalf of the Foundation.

APPENDIX A

Account Objectives and Guidelines

Objective: The objective of the Account, as determined by the Committee, is to achieve a total return equivalent to or greater than the Account's financial requirements over the Time Horizon. The Account'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.

General 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:** The Account has an infinite life. An investment Time Horizon of twenty-five years is appropriate.
- **Taxes:** The Foundation is tax-exempt.

Spending Rate Policy

Sources of Spending

The Committee recognizes both the short-term need of the Account for annual income from the investment portfolio, and the long-term need for maintenance and growth of the Account's purchasing power. As a result, the Board may appropriate for expenditure in any year for the uses and purposes for which the Account 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, but in all events not to exceed the amount determined under this Spending Rate Policy. This amount shall include any extra disbursement made by the Board in recognition of market conditions. When considering the investment performance of the Account, the Committee will consider the total returns of the Account, including dividends on stock, interest on fixed-income securities, and capital gains, both realized and unrealized.

Spending Rate

The Committee recognizes that recommending a Spending Rate equal to the Account's total returns each year will doom the Account 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 5.5% of the average fund balance. The average fund balance is calculated using the daily average market values of the prior 3 years as of 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.

ACCOUNT POLICY 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**
Expected Return (20 years)	***7.03***	
Standard Deviation (annual)	*11.38*	

For purposes of rebalancing and performance measurement, the Investment Committee, with input and guidance from the Investment Advisor, has approved a Target Asset Allocation and Policy Ranges, as stated above.

Performance Measurement and Evaluation: Because asset allocation is expected to be the primary determinant of investment returns, each category of assets is to be compared to a broad benchmark or return goal 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 appropriate broad index shown below.

Asset Class	Recommended Benchmark
Global Equities	MSCI ACWI Index
Investment Grade Bonds	Bloomberg-Barclays Aggregate Bond Index
High Yield Corporate Fixed Income	Bloomberg-Barclays US Corporate HY 2% Issuer Cap Index
Bank Loans	CSFB Leveraged Loan Index
Emerging Markets Debt	JP Morgan GBI-EM Index
TIPS	Bloomberg-Barcays US TIPS Index
Long-Term Government Bonds	Bloomberg-Barclays U.S. Long Treasury Index Risk
Mitigating/Hedge Funds	HFRI Fund of Funds Index

Illiquid managers are to be evaluated individually and as a strategy group and are expected over a period of five to eight years to add value net of fees versus the following benchmarks:

Private Equity	Cambridge Associates Fund of Funds Index
Real Estate (Private)	NCREIF ODCE Equal Weighted
Natural Resources (Private)	CPI + 4%
Infrastructure (Private)	CPI + 3%

Strategic Benchmark:

The return of a blended benchmark that mirrors the portfolio's strategic asset allocation. The return difference between the portfolio and the strategic benchmark reflects the contribution of a number of different factors including manager selection and decisions regarding the timing of inflows and rebalancing.

As the Endowment's policy allocation changes, the strategic benchmark should also change accordingly.

Appendix B

Subaccounts: Objectives and Guidelines

THIS SECTION REFERS TO THE INVESTMENT MANAGEMENT OF THE FOCUS GROWTH BLEND, FOCUS INCOME BLEND, SRI MANAGED ASSETS, CAPITAL PRESERVATION POOL, CHARITABLE REMAINDER TRUSTS, LOCAL BANK MANAGED ASSETS, , POOLED INCOME FUNDS, AND DONOR - ADVISED FUNDS OUTSIDE OF THE ACCOUNT.

FOCUS GROWTH BLEND:

Objective: Provide a liquid investment portfolio for donors with a long-term time horizon, but wishing to maintain the ability to spend within ten years.

General Investment Considerations:

- **Asset Allocation:** The allocation will be in liquid investments to allow gifting at variable rates throughout the years and allow donors to spend down their corpus.
    - Illiquid assets (alternatives) are not included in the asset allocation.

- **Asset Allocation Target and Ranges:**

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[1]	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	-

[1] Real Estate, Natural Resources, and Infrastructure are assumed to be accessed via private strategies in the LT Endowment, and via public strategies in the Focus Growth Blend and Focus Income Blend Portfolios.

Cash	3	1-5
Expected Return (20 years) *Standard Deviation (annual)*	*6.99* *12.40*	

- **Performance Measurement and Evaluation:** The performance of the portfolio should exceed its policy benchmark over market cycles.

Asset Class	Recommended Benchmark
Global Equities	MSCI ACWI Index
Investment Grade Bonds	Bloomberg-Barclays Aggregate Bond Index
High Yield Corporate Fixed Income	Bloomberg-Barclays US Corporate HY 2% Issuer Cap Index
Bank Loans	CSFB Leveraged Loan Index
Emerging Markets Debt	JP Morgan GBI-EM Index
TIPS	Bloomberg-Barlcays US TIPS Index
Long-Term Government Bonds	Bloomberg-Barclays U.S. Long Treasury Index
Real Estate (REITS)	FTSE EPRA/NAREIT Developed Liquid Index
Natural Resources (Public)	S&P Global Natural Resources Index
Infrastructure (Public)	DJ Brookfield Infrastructure Index

Strategic Benchmark:

The return of a blended benchmark that mirrors the portfolio's strategic asset allocation. The return difference between the portfolio and the strategic benchmark reflects the contribution of a number of different factors including manager selection and decisions regarding the timing of inflows and rebalancing.

As the portfolio's policy allocation changes, the strategic benchmark should also change accordingly.

- **Time Horizon:** Long-Term

- **Taxes:** The Foundation is tax-exempt.

FOCUS INCOME BLEND:

Objective: Provide a liquid investment portfolio for donors with a medium-term time horizon that is 4-10 years.

General Investment Considerations:

- **Asset Allocation:** The allocation will be in liquid investments to allow gifting at variable rates throughout the years and allow donors to spend down their corpus.

    - Illiquid assets (alternatives) are not included in the asset allocation.

- **Asset Allocation Target and Ranges:**

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[2]	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
Expected Return (20 years)	*5.51*	
Standard Deviation (annual)	*7.21*	

- **Performance Measurement and Evaluation:** The performance of the portfolio should exceed its policy benchmark over market cycles.

Asset Class	Recommended Benchmark
Global Equities	MSCI ACWI Index
Investment Grade Bonds	Bloomberg-Barclays Aggregate Bond Index
High Yield Corporate Fixed Income	Bloomberg-Barclays US Corporate HY 2% Issuer Cap Index
Bank Loans	CSFB Leveraged Loan Index
Emerging Markets Debt	JP Morgan GBI-EM Index
TIPS	Bloomberg-Barlcays US TIPS Index
Long-Term Government Bonds	Bloomberg-Barclays U.S. Long Treasury Index
Real Estate (REITS)	FTSE EPRA/NAREIT Developed Liquid Index
Infrastructure (Public)	DJ Brookfield Infrastructure Index

[2] Real Estate, Natural Resources, and Infrastructure are assumed to be accessed via private strategies in the LT Endowment, and via public strategies in the Focus Growth Blend and Focus Income Blend Portfolios.

Strategic Benchmark:

The return of a blended benchmark that mirrors the portfolio's strategic asset allocation. The return difference between the portfolio and the strategic benchmark reflects the contribution of a number of different factors including manager selection and decisions regarding the timing of inflows and rebalancing.

As the portfolio's policy allocation changes, the strategic benchmark should also change accordingly.

- **Time Horizon:** Medium-Term
- **Taxes:** The Foundation is tax-exempt.

CAPITAL PRESERVATION:

Objective: Provide cash equivalent pool to allow donors to spend down their corpus in a short time horizon.

General Investment Considerations:

- **Asset Allocation:** The allocation will be in cash equivalents to allow donors to spend down their corpus.
- **Performance Measurement and Evaluation:** The performance of the portfolio should be compared to cash.
- **Time Horizon:** Short-term
- **Taxes:** The Foundation is tax-exempt.

LOCAL BANK MANAGED ASSETS:

Objective: Earn a net-of-fee rate of return which meets or exceeds the return earned by a portfolio invested 60% in the S&P 500 index and 40% in the Bloomberg-Barclays Aggregate Bond Index.

General Investment Considerations:

- **Asset Allocation:** The allocation may differ from a 60% large cap/40% bond mix if the portfolio manager so chooses and subject to the constraints listed below:
    - Traditional assets classes, including REITs, small stocks, international equities, international fixed income, and cash are permissible investments. Single securities and mutual funds may be purchased.
    - Some non-traditional assets (alternatives) are not permitted. The assets not permitted include privately placed alternative investments such as private equity, hedge funds,

and any other partnerships. However, absolute return mutual funds may be used in place of hedge funds. Absolute return mutual funds typically use derivatives, such as options and futures.

- **Risk:** The total risk of the portfolio should not differ substantially from that of a 60% S&P 500/40% Bloomberg-Barclays Agg portfolio. If the portfolio manager deviates from a 60% S&P 500/40% Bloomberg-Barclays Agg portfolio, he should be prepared to explain how risk measures (such as standard deviation of return and beta) would differ.

- **Performance Measurement and Evaluation:** The portfolio manager should provide gross and net-of-fee returns on a monthly and quarterly basis. The portfolio manager should also be prepared to calculate and provide risk measures and risk-adjusted returns if the asset allocation is significantly from a 60% S&P 500/40% Bloomberg-Barclays Agg portfolio.

- **Time Horizon:** Infinite

- **Taxes:** The Foundation is tax-exempt.

SRI MANAGED ASSETS:

Objective: Provide an SRI managed portfolio as an option for donors to the Santa Barbara Foundation.

General Investment Considerations:

- **Asset Allocation Target and Ranges:**

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
Expected Return (20 years) *Standard Deviation (annual)*	*6.72* *12.70*	

•

- Maintain allocation to SRI managed mutual funds that meet the Socially Responsible Investment Considerations below. US Government Bond funds are deemed to meet these considerations. REITSs, small stocks, international equities, international fixed income are permissible with the mutual funds. Cash is permissible.

- Non-traditional assets (alternatives) are not permitted. The assets not permitted include derivatives, such as options and futures, private equity, hedge funds, and any other partnerships.

- **Performance Measurement and Evaluation:** The portfolio managers should provide gross and net-of-fee returns on a monthly and quarterly basis. The portfolio managers should also be prepared to calculate and provide risk measures and risk-adjusted returns. The performance of the portfolio should exceed its policy benchmark over market cycles.

Asset Class	Recommended Benchmark
U.S. Equities	Russell 3000 Index
Investment Grade Bonds	Bloomberg-Barclays Aggregate Bond Index

Strategic Benchmark:

The return of a blended benchmark that mirrors the portfolio's strategic asset allocation. The return difference between the portfolio and the strategic benchmark reflects the contribution of a number of different factors including manager selection and decisions regarding the timing of inflows and rebalancing.

As the portfolio's policy allocation changes, the strategic benchmark should also change accordingly.

- **Time Horizon:** Infinite

- **Taxes:** The Foundation is tax-exempt.

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.

POOLED INCOME FUNDS:

Objective: 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 with Growth asset allocation and benchmark consists of 35% S&P and 55% Bloomberg-Barclays Intermediate Gov't/Credit Bond Index and 10% cash.

CHARITABLE REMAINDER TRUSTS:

Objective: 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.

General Investment Considerations:
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%

- **Time Horizon:** Long Term
- **Taxes:** Tax-exempt

Performance Measurement: 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.

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 Account or subaccounts to the Board.

APPENDIX C

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: 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 Guidelines and Restrictions

As dictated by the State Insurance code, equity holdings cannot exceed 50% of the reserve requirement. Further, no more than 50% of the required reserve amount 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 be diversified by market capitalization & asset style.

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 income 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, the following investment alternatives are allowed, subject to the restrictions 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.

The Fund does not permit investment in options or commodity exchanges, pursuant to California Insurance Code Section 11521.2(b). The Fund may invest in such other investments as permitted by and subject to the written consent of the Insurance Commissioner of the State of California.

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 D

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 E

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 mangers 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 together with our investment advisor, 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.