



Peninsula Education Foundation Endowment Investment Policy Statement

Plan Description and Purpose

The Peninsula Education Foundation's (PEF) Endowment was initiated in 1979 with a \$50,000 gift from the Kenneth T. and Eileen L. Norris Foundation. The purpose of the Endowment is to provide financial support to the Palos Verdes Peninsula Unified School District (District), aiding the District in our common goal of providing the highest quality education to the children of our community. The intent of the Endowment is both to achieve long-stable support for the District by growing the Endowment through contributions and investment growth, and to provide an annual distribution of funds to the District in accordance with the PEF's Endowment Spending Policy.

Investment Objectives

The PEF believes that a balanced approach to portfolio management is required to reduce volatility, prudently maximize total return for the long term (at least a five to ten year horizon) and reasonably endeavor to assure that amounts are available for annual distribution. The primary objective is to seek to earn a total rate of return modestly greater than that provided by a portfolio equally divided between domestic stocks and fixed income instruments, as measured by appropriate indices. Total return is defined to be the result of capital gains, realized and unrealized, plus income derived from dividends and interest. It is recognized that economic and security market conditions are not constant, but ever changing and, as a result, continuous portfolio adjustments will be required in order to maintain asset productivity and balance.

Investment Types

To achieve the Endowment's investment objectives while attempting to minimize volatility, diversification and asset allocation are important. Investments in the following asset classes will be given consideration:

- Large Market Capitalization Growth Equities
- Large Market Capitalization Value Equities
- Middle Market Capitalization Growth Equities
- Middle Market Capitalization Value Equities
- Small Market Capitalization Growth Equities

- Small Market Capitalization Value Equities
- International Equities
- Emerging Market Equities
- Preferred Stocks
- Real Estate Investment Trusts (REITS)
- Government Bonds
- Corporate Bonds
- Agency Bonds
- High-Yield Bonds
- International Bonds
- Certificates of Deposit
- Money Markets

Certain asset classes are deemed to be unfit for the Endowment either due to their inherent risks or to the tax advantages the PEF enjoys by way of its status pursuant to section 501(c)(3) of the Internal Revenue Code (26 U.S.C. § 501(c)(3)). They include, but are not be limited to:

- Options Contracts on Equities
- Options Contracts on Currency
- Options Contracts on Commodities
- Futures Contracts
- Credit Default Swaps and all Contracts on Fixed Income Securities
- Any other Derivatives
- Municipal Bonds
- Any other tax-free investments

There are investment vehicles by which the Endowment might allocate money into a suitable asset class. The following is a partial list of the investments acceptable for the Endowment.

- Indices
- Mutual Funds
- Separately Managed Accounts
- Exchange Traded Funds
- Unit Investment Trusts

Certain investment vehicles would be inappropriate for the Endowment. Due to the turnover created by retiring Trustees and incoming new Trustees, it is impossible to determine how much investment sophistication and expertise any future board may or may not have. Given this certain investment vehicles will not be considered if a high degree of financial expertise is required to effectively invest. That would include:

- Individual Stocks except when purchased by way of a third party money manager

- Private Equity except when purchased by way of a fund specializing in such investments
- Foreign Currency
- Initial Public Offerings of Equity

Due to a lack of transparency and illiquidity, the Foundation would not consider:

- Hedge Funds
- Non-Publically traded Limited Partnerships

Due to the potential illiquidity and the lack of tax benefits for a nonprofit organization like ours, the Endowment may not utilize variable annuities or insurance products.

Investment Guidelines

Equity Guidelines:

Common and/or preferred stocks shall constitute from 40 to 80 percent of the value of the Endowment. No single equity investment, at purchase, may comprise five percent or more of the total equity assets of the Endowment. The aggregate investment in any one company, by any one investment manager or mutual fund, shall not exceed one percent of the total equity outstanding of that company. Overall emphasis should be placed on stocks that are quality issues, and the aim is to manage risk by seeking to reducing volatility.

Fixed Income Guidelines:

Fixed income instruments shall constitute from 20 to 60 percent of the value of the Endowment, depending in part on the anticipated use of funds for operating purposes and the market outlook of the financial advisor. Investments shall be in a balanced mix of fixed income instruments, and the fixed income maturity structure shall be determined based on a variety of factors, including anticipated cash needs of the PEF. Cash equivalent securities, i.e. money market funds, are viewed as a viable alternative to equity or fixed income securities as a strategy for reducing portfolio volatility and as an alternative to a more permanent commitment to equity or fixed income securities.

Endowment Monitoring and Oversight

The PEF Board of Trustees has delegated supervisory authority over the Endowment Fund to the Investment Committee of the Board. The Investment Committee is responsible for annually reporting on the Endowment's investments to the Board. In carrying out its responsibilities, the Investment Committee and its agents will act in accordance with the PEF's Bylaws and policies, and all applicable laws and regulations. The Investment Committee shall be comprised of the Vice President of Finance and two or more PEF Trustees. Non Trustees may be asked to join the committee when deemed

appropriate. The Investment Committee is charged with the duty of making decisions regarding the investment and stewardship of the Endowment. This includes the selection of investment advisors and asset managers. The Investment Committee is to be involved in the ongoing review process of the Endowment, evaluating advisor and manager performance, fees and legal or tax code changes that govern endowments of nonprofit organizations.

The role of the Endowment's financial advisor(s) is to develop an investment strategy and make investment decisions on the basis of the parameters described in the Endowment's investment policy, and to oversee the asset manager(s) in the implementation of an investment strategy and asset allocation that is consistent with the Endowment's investment policy. The financial advisor is expected to achieve total returns competitive with performance benchmarks appropriate to each asset class, as measured over a fair market cycle of three to five years. Benchmarks are intended as reference points and not as an assurance or guarantee of performance of any investment or of a specific portfolio. The specific indices used as benchmarks must be agreed upon by the Investment Committee and the financial advisor.

In addition to regular monthly statements every quarter the financial advisor will conduct a thorough review of the investments held in the Endowment and provide a written report to the Investment Committee which will include the following:

- For each investment, total return, net of fees, for the quarter, year to date, one year, three years, five years and since inception relative to the investment's appropriate benchmark.
- Commentary from the financial advisor when the performance of an individual investment departs significantly from the benchmark.
- An analysis for the entire portfolio of the current asset allocation by investment category (equity, fixed-income, short-term investments) to help determine the need for rebalancing.

Notwithstanding the recommendation of the financial advisor, the Investment Committee has the discretion to remove an investment from the Endowment and replace it with an alternative if it appears to the committee that the investment has failed to achieve appropriate returns relative to its risk profile or asset class as measured by the appropriate index or for any other reason that is consistent with the implementation of the Endowment's investment policy.

Annually, the Investment Committee will assess the overall Endowment and its financial advisor, and provide a report of its findings to the PEF Board. The financial advisor will make a presentation to the PEF Board of Trustees at the February board meeting each year to present the prior year's investment activity. The Investment Committee will assess the Endowment and its advisor in the following categories:

- Overall operational proficiency including quality of reporting, timeliness of response, and accuracy of reporting and documentation
- Costs for services rendered by the financial advisor
- Performance

If the Investment Committee has lost confidence in the financial advisor's ability to fulfill its responsibilities as described in the Endowment investment policy, maintain a clean record of compliance by the industry's self-governing body or provide helpful counsel regarding markets, investments and industry developments, it may make the decision to terminate the PEF relationship with the financial advisor and begin a search for an appropriate replacement.

The Investment Committee shall review this investment policy annually to determine if modifications are necessary or desirable. Any proposed modifications must be approved by Board Governance and if adopted must be communicated promptly to the financial advisor and other interested persons.