



Stockton Rotary Endowment

Rotary Club of Stockton

Founded March 1, 1982

Post Office Box 7457

Stockton, California 95267-0457

STOCKTON ROTARY ENDOWMENT INVESTMENT POLICY STATEMENT

SECTION I: OPENING

1. **Investment Policy Purpose** – The purpose of the Investment Policy is to establish guidelines, objectives and procedures by which the STOCKTON ROTARY ENDOWMENT (the “Endowment”) investments are managed. Specifically this statement is to provide parameters to guide investment strategies toward the desired result including:
 - A. Define and assign responsibilities of all involved parties.
 - B. Establish investment goals and objectives of the Endowment.
 - C. Establish a clear understanding of the investment goals and objectives of the Endowment’s assets.
 - D. Offer guidance and limitations to the Investment Advisor regarding the investments of assets.
 - E. Establish a basis for evaluating investment results.
 - F. Manage assets according to prudent standards as established by law.
2. **Policy Review:** The Investment Committee of the Endowment will review this Policy Statement annually and may present any recommendations for change to the Board of Trustees of the Endowment.
3. **Investment Philosophy:** While acknowledging the importance of preserving capital, Endowment recognizes the necessity of accepting risk in order for the Endowment to meet its long-term investment goals. It is the view of the Endowment that choices made with respect to asset allocation will be the major determinant of investment performance. The Endowment shall seek to ensure that the risks taken are appropriate and commensurate with the Fund’s goals.
4. **Delegation of Authority:** The Investment Committee will act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in selecting a Registered Investment Advisor (the “Advisor”). In this regard, the Endowment shall engage an Advisor as a professional investment consultant & manager for the Endowment. The Investment Committee will establish the scope and terms of the delegation of investment management to an Advisor, and periodically review the Advisor’s performance and compliance with this policy over the course of a full market cycle.

The Advisor shall have full discretion and authority for determining investment strategy in conformance with this policy, security selection and timing of purchases and sales of assets subject to the guidelines outlined in this policy and feedback from the Investment Committee of the Endowment as it relates to implementing this policy. The Fund shall be held at a Custodian independent of the Advisor.

5. **Endowment Board of Trustees Responsibilities**
 - a. The ultimate authority of the Endowment assets rests with the Board of Trustees of the Endowment.
 - b. The Board of Trustees of the Endowment shall appoint the membership of the Investment Committee. The Investment Committee will be the delegated authority to direct, monitor, invest and manage the Investment Funds in accordance with this written investment Policy Statement, which establishes guidelines, objectives, and procedures for the management of these assets.

SECTION II: ROLES AND RESPONSIBILITIES

1.0 Investment Committee. The Board of Trustees under its bylaws and consistent with the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) has delegated its fiduciary responsibility and other investment duties to the Investment Committee (“Committee”). Overseeing the investment and monitoring of the Endowment is the primary responsibility of the Committee. The Committee will act in good faith and with the care of an ordinarily prudent person in a like position would exercise under similar circumstances.

The Committee will make recommendations on investment objectives, define policies, set asset allocation, and selection of investment advisor. The Committee shall monitor the performance of the investment program of the Endowment’s funds. The Committee will review the investment portfolio on no less than a quarterly basis. The Committee will meet twice per year or as conditions warrant. The Committee will report to the Board of Trustees.

2. Endowment Treasurer. The treasurer of the Endowment will execute the day-to-day management functions and establish and enforce appropriate procedures and controls designed to avoid theft, embezzlement, or dissipation of the Endowment’s assets. The treasurer, only with the approval of the Board of Trustees, will open and close accounts at depository institutions or brokerage firms on behalf of the Endowment. The treasurer will prepare reports required by the Investment Committee and the Board of Trustees.

3. Investment Advisor. The Committee shall recommend to the Board of Trustees retaining an Investment Advisor. The Advisor shall be a Registered Investment Advisor (“Advisor”). The Advisor will serve as a fiduciary for the benefit of the Endowment. The Advisor on a fully discretionary basis will professionally manage the investments of the Endowment under these guidelines:

A. Discretionary investment management, including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement and to meet the Endowment’s investment goals.

B. Report to the Endowment’s Board of Trustees, on investment results not less than on a quarterly basis.

C. Communicate any major changes to short term and long term economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objectives of the assets.

D. Inform the Trustees regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

E. Vote proxies, if requested by the Endowment, and communicating such voting records to the Endowment on a timely basis.

F. Fulfill other responsibilities as outlined further in this document,

SECTION III: PRINCIPLES, POLICIES, GOALS & OBJECTIVES

1. General Investment Principals

A. Investments shall be made solely in the interest of the Endowment.

B. The assets shall be invested with the care, skill, prudence, and diligence that a prudent person acting in the capacity would undertake.

C. Investment of the assets shall be so diversified as to minimize the risk of losses, unless under circumstances it is clearly prudent not to do so.

D. Cash funds should be invested in short term money market instruments providing maximum safety, liquidity, and return.

2. Endowment Objectives. The Endowment has a longer term investment horizon. The Endowment shall be managed on a total rate of return basis consisting of dividends, interest, and any net increase/decrease in market value. The primary investment objectives are:

A. Preservation of Capital- Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

B. Risk- Understanding that risk is present in all types of securities and investment styles, the Endowment recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Endowment's objectives.

C. Maintain the purchasing power of the Endowment after inflation, costs and spending.

D. Provide a source of financial support and liquidity for Endowment purposes.

3. Liquidity. To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Endowment will periodically provide the Advisor with an estimate of expected cash flow needs. The Endowment will notify the investment advisor in a timely manner, to allow sufficient time to build up necessary liquid reserves.

SECTION IV: ASSET ALLOCATION: The Endowment seeks to implement an asset allocation range consistent with the need for investment return, capital preservation and earned income. A suggested target mix over a full market cycle will be 60/40 equities to fixed income, but may vary meaningfully at any quarter or fiscal year end, so long as it falls within the above asset allocation ranges. The Investment Committee may adjust the suggested mix, based upon more extreme market conditions or the Endowment's financial health, should either impact the time horizon of the Fund.

Compliance with this asset allocation policy will be measured on market value. Authorization to deviate from this policy may be granted by the Investment Committee from time to time and conveyed in writing at any time or verbally at a trustee meeting by the treasurer of the Endowment to the Investment Advisor.

1. Securities Guidelines. Marketable debt and equity securities both domestic and international that are traded in the United States have been identified as appropriate investments consistent with this policy. The investment portfolio shall be sufficiently balanced so that no single security or class of securities will have a disproportionate impact on the risk of the total portfolio.

A. **Equity Assets:** Publicly traded Equity securities (Common Stock, Preferred Stock, Convertibles, ETF's and Mutual Funds) may be chosen from any regulated and public US exchange (such as NYSE, NASDAQ). All equity assets must have readily ascertainable market values, and be fully liquid and marketable. It is expected that all Equity securities common stocks, ETF's mutual funds including any Foreign Investment will be of sufficient market capitalization and financial strength to be considered liquid investment. Foreign Investments may take the form of ADR's, ETF's or foreign focused mutual funds traded on US exchanges. No individual issue stocks are to be included in the portfolio.

Specific sector ETF's or mutual funds shall not exceed 5% of the portfolio. An ETF or mutual fund, which is considered highly liquid and of a broadly diversified common stock index, should not exceed 4% of the portfolio.

B. Fixed Income Assets: Publicly traded Fixed Income Securities may be utilized in the portfolio. Bonds and convertible bonds shall be rated BBB+ or better by Moody's or a comparable rating service. No single fixed income fixed income issue will represent more than 4% of the fixed income portfolio. An industry sector shall not exceed 6% of the fixed income portfolio. US Government obligations are exempt from the issuer and sector limitations. No more than 3% of the fixed income portfolio may be composed of High Yield bonds rated an average BB rating or better. High Yield Bond exposure shall be through a diversified ETF or Mutual Fund. Foreign bonds shall be limited to BBB rated or better and limited to 2% per issuer. All fixed income assets must have ascertainable market values, be considered liquid given reasonable market conditions and be marketable. The average maturity for the fixed income portfolio will be limited to 10 years or less.

C. Excluded Assets: It is the intent of the Fund to maintain liquid holdings to better allow for downside protection in the event of significant dislocation in the financial system. Those assets are typically referred to as Liquid Alternatives shall be excluded. These include Private Equity, Private Real Estate, direct investments thru Limited Partnership/LLCs/Private Corporations. Also excluded will be derivatives that create portfolio characteristics outside of the portfolio guidelines and crypto currencies.

2. Definition of Asset Classifications

A. Equities: It is expected that the total returns of equities will be higher than the total returns of the fixed income securities over the long run. Equities are likely to be subject to greater volatility over shorter periods.

(1) US Equities: It is intended that the domestic equity portion of the portfolio will provide exposure to different investment styles as well as the full range of market capitalization. The purpose of exposure to different investment styles is to minimize volatility as well as to enhance returns because different styles have historically had different performance cycles.

(2) Non-US Equities: This segment provides access to major equity markets outside of the US and consequently plays a significant role in diversifying the Endowment's equity portfolio. This segment will provide exposure to developed and developing non-US markets, as their growth and returns are not correlated to those of the US. This core international segment will concentrate on larger companies in established non-US equity and emerging markets. International equities include both the ordinary shares of non-US companies and American Depositary Receipts ("ADRs") traded on US exchanges.

B. Fixed Income: The primary role of fixed income is to provide a source of stability that acts as a buffer relative to more volatile portfolio segments, i. e. equities. Fixed income generally provides a diversified portfolio with deflation protection during periods of financial duress. Bonds dampen the overall volatility of total Fund results, which is important to help mitigate losses in periods of falling equity markets. The overall fixed income portfolio will be of high quality. Average credit quality should be investment grade. No more than 4% of the fixed income portfolio shall be allocated to fixed income issues rated lower than investment grade.

C. Alternative Investments: The purpose of alternative investments is to reduce the volatility of the overall portfolio and to provide an alternative source of return from that of the traditional domestic and international capital markets.

Alternative asset classes may include marketable securities. Real Estate Investment Trusts (“REIT’s”), venture capital, private equity, commodities or distressed investments. Alternative investment strategies are defined as investment programs that offer the portfolios access to strategies that have low relative correlation to the domestic and international equity and fixed income markets.

SECTION V: RISK. Investment theory and historical market return data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns one must accept higher risk. Given this relationship between risk and return, a fundamental step in determining the investment policy for the Endowment is the determination of the amount of risk the Endowment can tolerate.

A comfort level with investment risk influences how aggressively or conservatively a portfolio can be invested. Like a scale, risk needs to be balanced with the need for returns to achieve the investment goals. The Endowment desires long term performance sufficient to meet the objectives. The Endowment understands that to achieve such performance the portfolio may experience periods of decline.

The Endowment further understands that in a severe market, the potential recovery period could be extensive. Although the Endowment prefers to limit the portfolio’s volatility, it is comfortable with fluctuations in its portfolio, and the possibility of large declines in value, in order to grow the investments over time.

1. Diversification for Investments . The Endowment does not believe it is necessary or desirable that securities held in an investment represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or governmental agency should not exceed 3% of the total assets and no more than 15% of the total of an investment should be invested in any one industry.

SECTION VI: REPORTING. The Endowment shall receive regular reports from the Investment Advisor and Custodian. At least once a year, the Investment Advisor will meet with the Endowment’s Board of Trustees and prepare and report total returns and individual asset class returns, utilizing benchmarks consistent with the style and objectives of the components. It is recognized that investment results must be viewed over the longer term and in the context of the established objectives, policy and market conditions. A full market cycle (typically thought of 3-5 years) will be used as the appropriate time frame for evaluation.

It will be the Investment Advisor’s responsibility to outline market conditions, analyze and interpret portfolio returns, discuss recent portfolio changes, and review any other items of that the Endowment may deem appropriate. While the Endowment will establish the desired reporting format and routine, the Investment Advisor may expand upon the minimum requirements when appropriate or at the Endowment’s request.

1. Statements

- A. **Quarterly:** The Investment Advisor will provide a quarterly recap of the Endowment’s portfolio, including a list of holdings and its current asset allocation to the treasurer of the Endowment who will in turn distribute the same to the Endowments Trustees.
- B. **Monthly:** The Investment Advisor will furnish monthly copies of statements to the treasurer of the Endowment.

2. Custodian: An independent Custodian shall hold the fund assets. The custodian and the Investment Advisor shall not be directly affiliated or part of the same firm.

The Custodian will be reviewed by the Investment Committee, after comment is sought from the Investment Advisor. The Investment Committee will recommend a Custodian for approval by the Board of Trustees of the Endowment. The custodian will maintain a BBB+ or better rating and be reviewed over the course of a full market cycle. The Custodian will provide the Investment Advisor industry standard electronic access to the account for the purposes of reconciliation & record keeping.

3. **Gifts of Publicly Traded Securities to the Endowment.** From time to time, the Endowment may receive gifts or donations of readily marketable securities, such as those traded on a public stock exchange. Those gifts will be received under the Endowment's policy for such gifts
4. **Gifts of Non-Publicly Traded Assets.** Non-public and limited liquidity assets include additional risks, and their acceptance shall be on a case by case basis.

SECTION VII: SPENDING

The spending policy of the Endowment shall govern the annual percentage at which funds are transferred to the operating account of the Endowment. The intent of the Spending Policy is to create a measured long term focus financial support of the Endowment that contemplates market conditions, net return, and a desire to grow the balance of the Endowment. The targeted annual spending rate is 3.5% of the total assets subject to earnings of the Endowment to equal or exceed the spending rate for distribution to 501 (c) entities in San Joaquin County, California.

The above set forth Investment Policy Statement was approved by the Stockton Rotary Endowment Board of Trustees on October 25th, 2022.