

SAN BRUNO

Community Foundation

Investment Committee

Tim Ross, *Chair* • Anthony Clifford, Mark Hayes, Frank Hedley, and Georganne Perkins, *Members*
Leslie Hatamiya, *Executive Director*

AGENDA

SAN BRUNO COMMUNITY FOUNDATION

Regular Meeting of the Investment Committee

May 17, 2017

4:30 p.m.

Meeting Location:

San Bruno City Hall, 567 El Camino Real, Room 101, San Bruno

In compliance with the Americans with Disabilities Act, individuals requiring reasonable accommodations or appropriate alternative formats for notices, agendas, and records for this meeting should notify us 48 hours prior to meeting. Please call the City Clerk's Office at 650-616-7058.

1. Call to Order

2. Roll Call

3. Approval of Minutes: February 15, 2017, Regular Investment Committee Meeting

4. Conduct of Business

- a. Adopt Resolution Canceling August 16, 2017, Regular Meeting of the Investment Committee and Scheduling a Special Meeting on August 23, 2017
- b. Receive Report from Sand Hill Global Advisors, LLC (SHGA) regarding SHGA's Investment Outlook and SBCF's Investment Portfolio Performance
- c. Conduct Annual Review of SBCF's Investment Policy Statement and Investment Operating Plan and Adopt Resolution Recommending to the SBCF Board of Directors an Amendment to the Quasi-Endowment Payout for Fiscal Year 2017-2018 in the Investment Operating Plan

5. Public Comment: Individuals are allowed three minutes, groups in attendance, five minutes. If you are unable to remain at the meeting, contact the President to request that the Board consider your comments earlier. It is the Board's policy to refer matters raised in this forum to staff for research and/or action where appropriate. The Brown Act prohibits the Board from discussing or acting upon any matter not agendized pursuant to State Law.

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6. Committee Member Comments

7. Adjourn

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Investment Committee

Tim Ross, *Chair* • Anthony Clifford, Mark Hayes, Frank Hedley, and Georganne Perkins, *Members*
Leslie Hatamiya, *Executive Director*

MINUTES

SAN BRUNO COMMUNITY FOUNDATION

Regular Meeting of the Investment Committee

February 15, 2017

4:30 p.m.

Meeting Location:

San Bruno City Hall, 567 El Camino Real, Room 101, San Bruno

- 1. Call to Order:** Committee Chair Tim Ross called the meeting to order at 4:32 p.m.
- 2. Roll Call:** Committee Members Ross, Clifford, Hayes, Hedley, and Perkins, present.
- 3. Approval of Minutes:** November 16, 2016, Regular Investment Committee Meeting: Committee Member Hedley moved to approve the minutes of the November 16, 2016, Regular Meeting, seconded by Committee Member Clifford, passed unanimously.

4. Conduct of Business

- a. Receive Report from Sand Hill Global Advisors, LLC (SHGA) regarding SHGA's Investment Outlook and SBCF's Investment Portfolio Performance

SHGA CEO Brian Dombkowski, COO Tony Craun, and Senior Wealth Manager Kristin Sun represented SHGA at the meeting.

Mr. Dombkowski gave an overview of the firm's investment outlook, describing the current stage of the economic cycle as middle-to late expansion with moderate growth. He commented on SHGA's view of the financial markets since the November U.S. presidential election and the inauguration of President Trump. He then gave an overview of the firm's current economic forecast for the first quarter of 2017, commenting on economic growth, interest rates, the employment market, corporate earnings, international developed markets, emerging markets, inflation, commodity markets, valuation, the housing market, and left-tail risks.

Mr. Dombkowski then reviewed the Foundation's Investment Dashboard for the fourth quarter of 2016, including December 31, 2016, balances of \$15,737,304 for the Quasi-Endowment, \$53,699,679 for the Strategic Pool, and \$918,798 for the Liquidity Pool. He reported that in the fourth quarter, SHGA decreased the Foundation's Quasi-Endowment fixed income holdings and

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increased energy-focused equities and absolute return investments, in response to the rise in interest rates.

San Bruno resident John Marty suggested that SHGA provide an average weight analysis of the fund fees.

Mr. Dombkowski then led a discussion on interest rate considerations. He said that the firm expects rates to rise at a gradual rate in 2017, as inflation rises and the cycle matures. He said that historically corporate bonds outperform government bonds in a rising rate environment. Following last fall's presidential election, SHGA reduced SBCF's fixed income sensitivity and exposure in the portfolio. SHGA remains cautious on government bonds.

He then provided an overview on market neutral/absolute return strategies as an alternative to fixed income ("bond substitute"). He said SHGA would be willing to propose some market neutral/absolute return strategies if SBCF is willing to accept a small amount of illiquidity.

Executive Director Hatamiya reported that the City Council recently made a decision to move forward on the building of a new recreation center/pool facility and to request \$50 million from SBCF to fund the project, and that the SBCF Board will consider this request at its next meeting. She said that the timing of the payment of this grant is uncertain and will need to be worked out in negotiations with the City. The SHGA team said that as soon as the Foundation has more visibility on the timing of the grant payments, it can plan accordingly.

Mr. Dombkowski then reviewed performance data of underlying funds in the Foundation's Quasi-Endowment, Strategic, and Liquidity pools.

5. Public Comment: Mr. Marty asked several questions of Mr. Dombkowski, including SHGA's approach to overlap analysis and whether SHGA receives any commissions from the funds.

6. Committee Member Comments: Chair Ross said that the Committee would review the Investment Policy Statement at the May meeting and at that time may want to consider adjustments to the Strategic Pool targets, given the change in time horizon for use of the Strategic funds. He also said that he would not be able to attend the Committee's Regular Meeting in August and suggested that the Committee meet instead on August 23, 2017. Executive Director Hatamiya said she would confirm the change in date with the SHGA team, which had left the meeting.

Committee Member Clifford said that, under his reading of the document, he did not believe that Committee Members who are not Board Members are required to complete Form 700 of the Fair Political Practices Commission. The Committee discussed his concerns, and the other non-Board Committee members agreed to review Form 700 and its requirements.

7. Adjourn: Committee Member Hedley moved to adjourn the meeting at 5:59 p.m., seconded by Committee Member Clifford, approved unanimously.

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Tim Ross, *Chair* • Anthony Clifford, Mark Hayes, Frank Hedley, and Georganne Perkins, *Members*
Leslie Hatamiya, *Executive Director*

Respectfully submitted for approval at the Regular Investment Committee Meeting of May 17, 2017, by Investment Committee Chair Tim Ross.

Tim Ross, Investment Committee Chair

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Memorandum

DATE: May 12, 2017

TO: Investment Committee, San Bruno Community Foundation

FROM: Leslie Hatamiya, Executive Director

SUBJECT: May 17, 2017, Investment Committee Regular Meeting

The Investment Committee of the San Bruno Community Foundation will hold its regular quarterly meeting at 4:30 p.m. on Wednesday, May 17, 2017, at San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno.

1. Resolution Canceling August 16, 2017, Regular Meeting of the Investment Committee and Scheduling a Special Meeting on August 23, 2017

At the February Committee meeting, the Committee discussed moving the quarterly meeting scheduled for August 16, 2017, to August 23, 2017, due to vacation schedules. The new date has been confirmed with the Sand Hill Global Advisors team, and I have reserved a conference room at City Hall for August 23.

I recommend that the Committee pass the attached resolution, which would formally cancel the August 16, 2017, regular meeting and schedule a special meeting on August 23, 2017.

2. Report from Sand Hill Global Advisors (SHGA) Regarding SHGA's Investment Outlook and SBCF's Investment Performance

Representing SHGA at the Committee meeting will be CEO Brian Dombkowski and Senior Wealth Manager Kristin Sun. The SHGA team will give a presentation to the Committee that will cover (a) SHGA's investment outlook and (b) the performance of the Foundation's investment portfolio.

a. SHGA's Investment Outlook

In this portion of the presentation, the SHGA team will provide an overview of SHGA's current economic forecast, particularly for the first quarter of 2017, including the firm's perspective on economic growth, interest rates, employment market, corporate earnings, international market, housing market, inflation, and commodity markets.

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b. SBCF's Investment Performance

The second part of SHGA's presentation will review the performance of the Foundation's investment portfolio for the first quarter of 2017. The SHGA team will walk the Committee through the attached Investment Dashboard for March 31, 2017, a one-page summary of the Foundation's portfolio. At the meeting, the SHGA team will also provide more detailed and up-to-date information about the Foundation's investment holdings, including performance data of underlying funds.

3. Annual Review of SBCF's Investment Policy Statement and Investment Operating Plan and Resolution Recommending to the SBCF Board of Directors an Amendment to the Quasi-Endowment Payout for Fiscal Year 2017-2018 in the Investment Operating Plan

The Foundation's Investment Policy Statement was approved by the Foundation Board on April 6, 2016, and by the San Bruno City Council on April 26, 2016. The Investment Operating Plan was approved by the Foundation Board and signed by the Treasurer and Executive Director on May 4, 2016, and signed by the SHGA CEO on May 11, 2016.

Under Section II.2.a. of the Investment Policy Statement, the Investment Committee is tasked to "review at least annually the Investment Policy Statement and Investment Operating Plan and monitor compliance with both documents." At the May 17 meeting, the Committee will review the two documents, which I have attached.

As a reminder, the Investment Policy Statement is intended to serve as a high-level policy document governing the Foundation's investment practices. Its goals include:

- Outlining the purpose and goals of the Foundation's investment portfolio, including three separate pools of funds
- Defining the roles and responsibilities for the Foundation's Board of Directors, Investment Committee, External Investment Manager, and the San Bruno City Council
- Setting investment goals, objectives, and target asset allocations for each pool of funds
- Establishing asset guidelines and investment procedures
- Outlining the spending policy
- Establishing guidelines to monitor performance
- Providing continuity across changes in the Board of Directors, Investment Committee, and Foundation staff

Under the Foundation's Bylaws, the City Council is to approve the adoption, amendment, or repeal of the Foundation's Investment Policy Statement.

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While the Investment Policy Statement is a high-level policy document, the Investment Operating Plan is the more detailed operating agreement between the Foundation and its investment adviser. Drafted jointly by the Committee and the SHGA team, the Investment Operating Plan follows the principles outlined in the Investment Policy Statement and provides detailed instructions to Sand Hill regarding ongoing management of the three pools of money, including specific asset allocation targets and ranges, as well as guidelines regarding payout and withdrawals.

In reviewing the two documents, I specifically looked at two issues as possible candidates for amendment: (a) changes to the Strategic Pool's asset allocation, and (b) changes to the Quasi-Endowment payout. In addition to these two items, I encourage Committee members to review both documents before the meeting and come with questions and suggestions for possible amendments, either now or in the future.

a. Strategic Pool Asset Allocation

As discussed at the last Committee meeting, the Foundation Board is likely to commit \$50 million for a grant to the City to fund the design and construction of a new recreation center/swimming pool joint facility in the 2017-2018 fiscal year. In March, the Board approved a resolution approving the project in concept and directing the Executive Director to negotiate the grant arrangement with the City. This development begs the question whether the asset allocation for the Strategic Pool, out of which the funds for the facility would come, should be adjusted.

At this time, I am not recommending any Strategic Pool asset allocation adjustments. First, the funds for the rec center/pool facility are likely to be paid out over several years on a yet-be-determined schedule, with the bulk of the funds likely to be transferred to the City starting in fiscal year 2019-2020, the earliest point that the construction stage is likely to begin. Second, in order to protect the value and ensure the liquidity of the funds as they will need to be paid out, the three investment pools were structured so that as funds are needed, they can be shifted from the Strategic Pool to the Liquidity Pool, which has a more conservative risk tolerance and higher liquidity requirement. Finally, the Investment Operating Plan also provides SHGA will asset allocation ranges that allows SHGA to make reasonable and sufficient adjustments to the Strategic Pool to accommodate the payment schedule.

b. Quasi-Endowment Payout

Section VII of the Investment Policy Statement sets forth the spending policy. Section VII.1. states:

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The SBCF Board will determine the spending policy for the Quasi-Endowment with input from the Investment Committee. The SBCF Board will use the following guidelines in approving a fixed payout amount each year. The SBCF Board will review this policy annually.

The payout amount will be determined once annually, prior to the conclusion of the Foundation's fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve (12) prior quarter-ending Quasi-Endowment values.

Section VI.1.d. of the Investment Operating Plan provides pool-specific operating guidelines for payout or other withdrawals. For the Quasi-Endowment Pool:

Payout amount will be determined once annually, prior to the conclusion of the Foundation's fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve prior quarter-ending Quasi-Endowment values. From the initial funding of the Quasi-Endowment Pool through the end of fiscal year 2016-2017, the payout rate will be 0%. During fiscal years 2017-2018 and 2018-2019, the default payout rate will be 3%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision. One-twelfth (1/12) of the annual payout amount will be withdrawn from the Quasi-Endowment and deposited in the Liquidity Pool on a monthly basis.

The rationale for a 0% payout rate in 2016-2017 was to allow the Quasi-Endowment to begin earning investment income before we start taking payout from it, in the interest of the long-term health of the Quasi-Endowment. For 2017-18 and 2018-19, the payout rate was set at a conservative 3% to prevent dipping into principal in the early years if the investment returns are lower than expected, especially while the Foundation still has the Strategic funds to help support operational expenses.

With the assistance of Accounting Consultant Frank Bittner, I am in the process of developing the 2017-2018 operating budget. The current draft is projecting expenses of nearly \$51 million, including \$50 million for the recreation center/pool grant. However, since most of the \$50 million will not be paid out until later years, cash flow needs in 2017-2018 are significantly more modest, with program disbursements estimated at slightly more than \$1.2 million (payments for Crestmoor Scholarships and Community Grants Fund total \$310,000) and personnel and other support costs at just under \$379,000. Total cash flow needs for 2017-2018 are currently projected at \$1.61 million.

The question for the Committee and, ultimately, the Board, is whether the Foundation should use the full 3% Quasi-Endowment payout rate as set forth in the Investment Operating Plan, or whether a lower rate would be more appropriate, in order to allow the

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Quasi-Endowment to continue to grow while the Foundation still has funds in the Strategic Pool to cover expenses. To the extent that Community Grants, the Crestmoor Scholarship, and support costs are funded by the Strategic Pool, there will be fewer funds available for any additional strategic grantmaking the Board may want to do in the next few years. At the same time, by relying more heavily on the Strategic Pool and using a smaller amount of Quasi-Endowment payout in the next year, the Quasi-Endowment will likely grow at a faster rate and therefore provide a larger base for the long-term funding of the Foundation, when only the Quasi-Endowment remains.

As of April 30, 2017, the Strategic Pool balance was \$54.87 million. Of that amount, about \$1.37 million is investment income since May 2016, when the Foundation took possession of the restitution funds. By June 30, 2017 (the end of the fiscal year), we expect a cash balance (Liquidity Pool + Wells Fargo bank accounts) of about \$300,000; if we allow for a buffer of \$100,000, then the net cash flow needs for 2017-2018 are \$1.41 million (\$1.61 million minus \$200,000). Assuming a final recreation center/pool grant arrangement is approved, the Foundation will have outstanding strategic grant commitments accounting for \$50.74 million of the \$54.87 million in the Strategic Pool, resulting in a balance of about \$4.13 million.

I propose that the Committee consider three options for the Quasi-Endowment payout for 2017-2018:

- **Option 1:** Keep the Investment Operating Plan as is, with a 3% Quasi-Endowment payout
 - 2017-2018 cash flow needs met by \$470,561 in Quasi-Endowment payout and about \$942,000 in Strategic funds
 - Uncommitted funding remaining in the Strategic Pool would be roughly \$3.18 million plus investment income
- **Option 2:** Lower the Quasi-Endowment payout to 1.98%, which will result in \$310,000 and meet the cash flow needs for the Crestmoor Scholarship and the Community Grants Fund
 - 2017-2018 cash needs met by \$310,000 in Quasi-Endowment payout and \$1.1 million in Strategic funds
 - Uncommitted funding remaining in the Strategic Pool would be roughly \$3.02 million plus investment income
- **Option 3:** Lower the Quasi-Endowment payout to 0% and fund all 2017-2018 cash needs from the Strategic Pool
 - 2017-2018 cash needs met by \$0 in Quasi-Endowment payout and \$1.41 million in Strategic funds
 - Uncommitted funding remaining in the Strategic Pool would be roughly \$2.71 million plus investment income

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It is important to note that the value of the Strategic Pool may fluctuate up or down based on the market values of the underlying holdings.

Although the Committee should have a full discussion of all three options, I am recommending that the Committee recommend to the Board that the Investment Operating Plan be amended to reflect Option 2 for the 2017-2018 fiscal year. This option would draw a small amount of funds from the Quasi-Endowment, allowing the Quasi-Endowment to continue to grow until it is the remaining primary sources of funds. The Quasi-Endowment payout would cover the cash needs for the Crestmoor Scholarship and the Community Grants Fund, consistent with the original long-term vision for the Quasi-Endowment (to fund those two programs plus support costs on an ongoing basis). Strategic funds would cover cash needs for all strategic grants plus all support costs, with about \$3 million in Strategic funds remaining to cover future strategic grants and support costs. In sum, Option 2 seems like a reasonable compromise position – it does draw from the Quasi-Endowment but at a low rate, and it does tap into the Strategic Pool for all support costs but also leaves a meaningful amount for additional strategic grantmaking.

In addition, I recommend that the Committee recommend to the Board that the Investment Operating Plan delete any mention of the Quasi-Endowment payout rate for fiscal year 2018-2019. I believe that it is most appropriate for the payout rate to be considered once again at the end of the 2017-2018 fiscal year, when there will be more visibility of the 2018-2019 cash needs, the status of existing strategic grantmaking commitments (including the recreation center/pool grant), and other strategic grantmaking commitments the Foundation may make.

As a result, I recommend that the Committee adopt the attached resolution recommending to the SBCF Board of Directors an amendment to the Quasi-Endowment payout for fiscal year 2017-2018 in the Investment Operating Plan

Attachments:

1. Resolution Canceling August 16, 2017, Regular Meeting of the Investment Committee and Scheduling a Special Meeting on August 23, 2017
2. SBCF Investment Dashboard, as of December 31, 2016
3. San Bruno Community Foundation Investment Policy Statement
4. San Bruno Community Foundation Investment Operating Plan with Sand Hill Global Advisors
5. Resolution Recommending to the SBCF Board of Directors an Amendment to the Quasi-Endowment Payout for Fiscal Year 2017-2018 in the Investment Operating Plan

RESOLUTION NO. 2017-__

**RESOLUTION OF THE SAN BRUNO COMMUNITY FOUNDATION
INVESTMENT COMMITTEE CANCELING THE AUGUST 16, 2017, REGULAR
COMMITTEE MEETING AND SCHEDULING A SPECIAL COMMITTEE MEETING ON
AUGUST 23, 2017**

WHEREAS, the Regular Meeting of the Foundation's Investment Committee is scheduled for August 16, 2017; and

WHEREAS, the Committee may not have a quorum in attendance on August 16, 2017, due to Committee members' travel schedules.

NOW, THEREFORE, BE IT RESOLVED that the Investment Committee cancels the Regular Committee Meeting of August 16, 2017, and schedules a Special Committee Meeting at 4:30 p.m. on August 23, 2017.

Dated: May 17, 2017

ATTEST:

Tim Ross, Investment Committee Chair

I, Tim Ross, Chair, do hereby certify that the foregoing Resolution No. 2017-__ was duly and regularly passed and adopted by the Investment Committee of the San Bruno Community Foundation on this 17th day of May, 2017, by the following vote:

AYES: Committee members:

NOES: Committee members:

ABSENT: Committee members:

The San Bruno Community Foundation Investment Dashboard

As of March 31, 2017

Current Outlook:

Economic Environment: Global economic growth continued to firm up during the first quarter of 2017, supporting our view that economic expansion is likely to persist. We expect US economic growth to average a 2-2.5% pace this year. Leading economic indicators suggest economic growth may accelerate over the next six months as a recovery in business spending, and a jump in factory orders, a strong job market, rising consumer confidence and relatively low borrowing costs propel growth forward. Globally, corporate earnings are projected to grow for the first time in two years and this should support equity markets around the globe, particularly international developed and emerging markets where valuation is more reasonable than it is in the U.S. With headline inflation at the Federal Reserve's 2% target and the unemployment rate continuing to improve, we expect interest rates to rise and the yield curve to modestly steepen as the Federal Reserve raises short term interest rates. Rates could experience further pressure as the Federal Reserve moves to shrink its balance sheet later this year. As global demand for oil continues to rise and a lack of spending on mega-projects begins to impact supply, we expect oil prices to remain at, or above, current levels. While political events remain a risk this year, global economic growth appears strong enough to persist even if non-consensus outcomes arise both domestically and abroad. When combined with strong corporate earnings growth, this should be supportive of positive financial market returns.

Market Environment: Both domestic and international equity markets appreciated during the quarter and many of the areas that lagged during the fourth quarter were among the strongest performers during the period. For the first time in four years, both emerging market and international equity outpaced domestic large cap equity leading to attractive returns in diversified portfolios. Fixed income yields declined slightly even in the face of another Federal Reserve rate hike. Commodities were the only asset class that generated a negative return during the period as oil prices softened in response to rising inventories. The end result was a quarter where portfolios managed with an endowment style generated an attractive risk-adjusted return.

Portfolio Response: Following a modest decline in interest rates, we reduced the duration, or interest rate sensitivity, of your fixed income allocation. Within large cap equity, we shifted away from the growth tilt that had been present in your portfolio for several years and added a value tilt. This is a result of our positive view of the financials and energy sectors which represent a large percentage of the large cap value asset class.

Performance		Quasi-Endowment Pool			Custom Blended		
		Benchmark	+ / -	Strategic Pool	Benchmark	+ / -	
Quarterly	Q1 2017	3.58%	3.46%	0.12%	1.67%	1.65%	0.02%
	Q4 2016	0.67%	0.76%	-0.09%	-1.35%	-1.66%	0.31%
Calendar	ITD	8.67%	8.19%	0.48%	1.91%	1.43%	0.48%

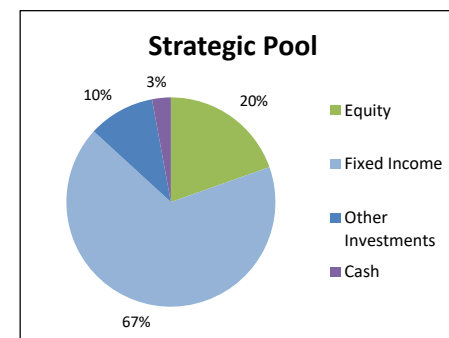
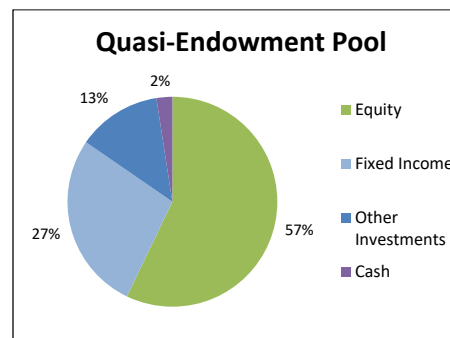
Asset Allocation	Quasi-Endowment Pool	31-Mar-17	Strategic Target	Strategic Pool	31-Mar-17	Strategic Target
Large Cap Equity	\$5,731,128	35%	30%	\$6,626,022	12%	9%
SMID Cap Equity	\$1,535,631	9%	9%	\$1,337,548	2%	3%
International/EM Equity	\$2,048,776	13%	13%	\$2,735,254	5%	4%
Fixed Income	\$4,472,633	27%	30%	\$36,699,384	67%	70%
Real Assets	\$851,616	5%	8%	\$773,621	1%	2%
Market Neutral	\$1,261,223	8%	8%	\$4,852,708	9%	10%
Cash	\$399,181	2%	2%	\$1,570,697	3%	2%
Total	\$16,300,189	100%	100%	\$54,595,232	100%	100%

Governance Checklist	OK
Asset allocation within target range: All weights are in compliance.	✓
No Direct investments in any equity or debt securities of Pacific Gas & Electric.	✓
No individual equity securities (stocks) will be held in any Direct Account.	✓
No below investment grade allocation > 5% of portfolio value.	✓
With the exception of U.S. government securities, no more than 5% at cost of the portfolio may be invested in the securities of a single issuer.	✓
Quasi-Endowment Pool can maintain up to 10% illiquidity.	✓

Quasi-Endowment Portfolio Action	Increased	Decreased	Growth/Capital Preservation
Feb 2017	Reducing Interest Rate Exposure		83/17
	Large Cap Value Stocks	Large Cap Growth Stocks	
	Floating Rate Bank Loans	Long Duration Fixed Income	
Nov 2016	Fixed Income Reduction		81/19
	Energy-Focused Energy	Fixed Income	

Balances	Quasi-Endowment	Strategic	Liquidity	Total
Q1 2017	\$16,300,189	\$54,595,232	\$922,016	\$71,817,437
Q4 2016	\$15,737,304	\$53,699,679	\$918,798	\$70,355,781

Illiquidity as of 3/31/2017	1-Year	3-Year	Longer	Total
Account Illiquidity	0.00%	0.00%	0.00%	0.00%



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INVESTMENT POLICY STATEMENT

Approved by the SBCF Board of Directors, April 6, 2016
Approved by the San Bruno City Council, April 26, 2016

INVESTMENT POLICY STATEMENT

This Investment Policy Statement (“Policy”) is intended to govern the investment practices of the capital assets of the San Bruno Community Foundation (“SBCF” or “Foundation”). It is to allow all parties who interact directly or indirectly with SBCF’s investment assets full understanding of how the assets will be managed. This policy addresses the following areas:

- The general goals of the Foundation
- The structure and purpose of the separate pools of funds
- The roles and responsibilities of all parties involved in the investment process
- Investment goals and objectives for each pool of funds
- Investment process including asset allocation framework and rebalancing policies
- Measurement and evaluation of investment performance
- The Foundation’s spending policy and how it interfaces with the investment management of each pool of funds

I. FOUNDATION’S PURPOSE AND GOALS

The San Bruno Community Foundation was established in 2013 by the San Bruno City Council to administer, for the long-term benefit of the San Bruno community, approximately \$70 million in restitution funds resulting from the devastating 2010 gas pipeline explosion in San Bruno’s Crestmoor neighborhood. SBCF has been charged with determining the use of the funds and administering them to benefit the San Bruno community through enduring and significant contributions to, and investments in, charitable and community programs, and publicly owned community facilities, over the long term.

The SBCF Board has approved the establishment of three separate pools of funds with varying purposes, time horizons and withdrawal requirements.

1. A Quasi-Endowment Pool to support the annual operating and program expenses of the Foundation over the long term.
2. A Strategic Pool earmarked to cover the costs of major strategic grant making projects, including capital improvements of community facilities, over a 7-10 year period. The Strategic Pool will be fully exhausted either at the completion of those strategic projects, or by consolidation into the Quasi-Endowment Pool at the Board’s discretion.
3. A Liquidity Pool to act as a holding account for expenditures planned in the subsequent 0-24 months. The purpose of this pool is to mirror the Foundation’s operating accounts. This account may be funded by both the Quasi-Endowment and the Strategic Pool.

II. ROLES AND RESPONSIBILITIES

1. The SBCF Board of Directors is responsible for the following:
 - a. Formation of the Investment Committee, including appointment of a sitting Board Member as the Committee Chair. The Committee can consist of a mix of SBCF Board

Members and non-Board Members. For non-Board Members, a preference will be given to individuals with experience and/or expertise in finance and investment management.

- b. Approval, termination, or replacement of the External Investment Manager.
 - c. Approval of this Investment Policy Statement and subsequent modifications to it.
 - d. Approval of an Investment Operating Plan executed with the External Investment Manager.
 - e. Approval of the Foundation spending policy, as defined in section VII of this document.
 - f. Approval of any transfer of funds to or from the Quasi-Endowment Pool or the Strategic Portfolio, as defined in section IV, beyond that specified in the Board-approved spending policy.
 - g. Maintain guidelines for the External Investment Manager to ensure that Foundation assets are invested in a manner consistent with the mission of the Foundation. It is at the Board's discretion to implement specific restrictions on how the assets of the Foundation shall be invested. Such restrictions may include but are not limited to Socially Responsible Investing known as Environmental, Social and Governance (ESG). Any active restrictions will be detailed within the Investment Operating Plan.
2. The Investment Committee, with support from the Executive Director, is responsible for providing guidance to the Board on all aspects of the investment management process. The Investment Committee is not empowered to approve decisions, as that power lies with the full Board. As part of its guidance to the Board, the Investment Committee will:
- a. Review at least annually the Investment Policy Statement and Investment Operating Plan and monitor compliance with both documents.
 - b. Review the long-term asset allocation of each pool of funds.
 - c. Monitor the performance and risk profile of the investment assets of the Foundation as a whole, including each pool of funds.
 - d. Review and address all potential conflicts of interest in accordance with the SBCF Conflict of Interest Policy.
 - e. Monitor the External Investment Manager.
3. The External Investment Manager (the "Investment Manager") is responsible for the following:

- a. Discretion to select, evaluate, and terminate the underlying fund managers and investments, as well as discretion to make tactical shifts within the parameters of the asset allocation established for each pool.
 - b. Monitor the appropriateness of each investment given the Foundation's risk tolerance and objectives.
 - c. Oversee the Foundation's investment assets and report on the status of the investments to the Investment Committee and Board of Directors.
- 4. The San Bruno City Council is responsible for the following:
 - a. Approval of the initial Investment Policy Statement, including the Foundation's spending policy, as articulated in Section VII of this document, for the Foundation.
 - b. Approval of all future modifications to the Investment Policy Statement.

III. POLICY REVIEW

This Statement shall be reviewed annually by the Investment Committee and any recommendations for modification shall be presented to the full Board of Directors. Updates to this Policy must be approved by both the SBCF Board and the San Bruno City Council.

IV. INVESTMENT GOALS AND OBJECTIVES

The primary goal of the Foundation is to administer these funds for the long-term benefit of the San Bruno community. The specific goals for these funds include but are not limited to supporting SBCF's annual operating expenses and the three categories of program activities outlined in SBCF's Program Strategy Framework (strategic grant making, responsive grant making, and Foundation programs).

The risk tolerance of each pool of funds is dictated by the time horizon and liquidity needs, and as directed by the Board of Directors. The specific goals and objectives, risk tolerance, and time horizon for each pool of funds is as follows:

1. Quasi-Endowment Pool: The Foundation seeks to meet the current payout objectives while maintaining the total purchasing power of these assets for the San Bruno community in the future. As such, Capital Appreciation is the primary objective, with Capital Preservation as the secondary objective. The risk tolerance of the Quasi-Endowment can be described as Moderately Conservative and the time horizon as Long-Term.
2. Strategic Pool: The Foundation seeks to achieve growth of the portfolio at a conservative rate in excess of inflation. As such, Capital Preservation is the primary objective. The risk tolerance of the Strategic Pool can be described as Conservative. The goal of the Strategic Pool is to be drawn down to zero over a 7-10 year period. As such, the time horizon can be described as Mid-Term.
3. Liquidity Pool: The Foundation seeks to preserve the principal balance of all funds directed into this pool. As such, Capital Preservation and Liquidity are the primary objectives. The risk

tolerance of the Liquidity Pool can be described as Conservative. The goal of the Liquidity Pool is to cover Foundation expenditures that will be withdrawn within the succeeding 24 months from initial funding. As such, the time horizon can be described as Short-Term.

V. INVESTMENT POLICY AND ASSET ALLOCATION

1. Asset Guidelines:

- a. No individual equity securities (stocks) will be held in any Direct Account. A Direct Account is defined as any investment account registered in the name of the Foundation.
- b. Direct investments in any securities, including equity and fixed income, of Pacific Gas & Electric Corporation (Symbol: PCG) is prohibited.
- c. Individual fixed income securities (bonds) may be held in Direct Accounts. These include, but are not limited to, municipal bonds, U.S. government securities, federal government agency securities, corporate debt (limited to U.S. or multinational corporations), and high-yield debt.
- d. Commingled funds, mutual funds, and index funds may be held in Direct Accounts. The fund selection process will incorporate criteria such as investment style and process, experience of the investment team, organizational stability, and performance analysis such as long-term, risk-adjusted returns, manager tenure, relative performance in up and down markets, consistency of management style, and the associated cost to own (expense ratio).
- e. Other investments may be held in Direct Accounts. Other investments will be broadly defined as, but not limited to, investments in market-neutral funds, commodities and gold, real return strategies, venture capital, and real estate. These categories are to be implemented only through diversified investment vehicles.
- f. Cash and cash equivalents may be held in Direct Accounts. Cash equivalent positions will be high-quality instruments such as U.S. Treasury Bills, Eurodollar Certificates of Deposit, time deposits (CDs), money market funds, and repurchase agreements.

2. Investment Procedures:

- a. Diversification: All portfolios will be managed as diversified portfolios. The goal of diversification across various asset classes, sectors, and security types is to minimize risk while improving performance.
- b. Investment Vehicles: Within the constraints of the target asset allocation of each portfolio, investments will be allocated across various asset classes, either directly or through pooled or commingled investment accounts (mutual funds and index funds), that might include domestic and foreign equities, bonds, real estate, other investments, and cash or cash equivalents. With each asset class, the Investment Manager will weigh factors including expense, market efficiency, transparency of information, and

diversification to determine whether direct investments or commingled investments are in the Foundation's best interests.

- c. Rebalancing: Rebalancing is designed to minimize portfolio deviations from allocation targets. The portfolio will be reviewed regularly by the Investment Manager and rebalanced whenever the weighting of a major asset class deviates materially from the target asset allocation, or a tactical opportunity presents itself.
- d. Custody of Assets: The Foundation's assets shall be held at a third-party custodian recommended by the Investment Committee and approved by the Board. The Investment Manager shall have discretion and authority to trade on behalf of the Foundation via the custodian's trading platform.
- e. Custodian's Margin Loan Option: A Margin Loan allows a brokerage account holder to gain access to cash by borrowing against the invested securities in the account. The margin loan option on any Direct Accounts shall be disabled.

3. Asset Allocation:

The Investment Manager shall invest the funds per the strategic asset allocation parameters established for each pool of funds. Investments will be categorized as either Capital Appreciation or Capital Preservation.

Capital Appreciation can be generally defined as a strategy where the primary goal is to grow the capital base over time. Investments in this category include, but are not limited to: equities (stocks), real estate, commodities, and natural resources.

Capital Preservation can be generally defined as a strategy where the primary goal is to preserve capital and prevent loss of principal. Investments in this category include, but are not limited to: high-quality fixed income (bonds), market-neutral investments, cash equivalents, and cash.

- a. Quasi-Endowment Pool: In accordance with the Foundation's risk tolerance, as well as the goals, objectives, time horizon, and liquidity needs of the Quasi-Endowment, management of this pool will target a 60/40 allocation: 60% Capital Appreciation and 40% Capital Preservation.
- b. Strategic Pool: In accordance with the Strategic Pool's goals, objectives, time horizon and liquidity needs, management of this pool will target a 20/80 allocation: 20% Capital Appreciation and 80% Capital Preservation.
- c. Liquidity Pool: In accordance with the Liquidity Pool's goals, objectives, time horizon and liquidity needs, management of this pool will target a 100% Capital Preservation allocation.

VI. INVESTMENT MANAGER REPORTING AND EVALUATION

The Investment Manager shall provide the Investment Committee with quarterly performance and holdings reports to allow the Committee to review the overall investment performance of the

Investment Manager and the individual securities in each portfolio with respect to the risk and return objectives established for the Foundation. At a minimum, the reports shall include the following:

- An accounting of all securities held in the investment accounts for the Foundation.
- Comparative returns for each pool of funds against their respective benchmarks.

Additionally, the Investment Manager shall present to the Board of Directors on an annual basis.

VII. SPENDING POLICY

1. Quasi-Endowment Pool

The SBCF Board will determine the spending policy for the Quasi-Endowment with input from the Investment Committee. The SBCF Board will use the following guidelines in approving a fixed payout amount each year. The SBCF Board will review this policy annually.

The payout amount will be determined once annually, prior to the conclusion of the Foundation's fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve (12) prior quarter-ending Quasi-Endowment values.

2. Strategic Pool

The Strategic Pool has been earmarked by the Board to fund strategic projects, including but not limited to capital improvement projects of community facilities, that benefit the San Bruno community. As such, withdrawals will be determined by the timing of project expenditures, as well as guidance from the SBCF Board. The Investment Committee and SBCF staff will provide direction to the Investment Manager regarding liquidation of investments to fund the withdrawals. Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis.

3. Liquidity Pool

The Liquidity Pool will contain funds that have been earmarked for disbursement by the SBCF Board, with the guidance from the Investment Committee. As directed by SBCF staff, withdrawals will take place in the subsequent 0-24 months following initial deposit into the Liquidity Pool.

VIII. CONFLICTS OF INTEREST

In accordance with the SBCF Conflict of Interest Policy, all employees, members of the Board of Directors, and members of the Investment Committee are expected to use good judgment, adhere to high ethical standards, and act in such a manner as to avoid any actual, perceived, or potential conflict of interest.

San Bruno Community Foundation

Investment Operating Plan

Approved by the SBCF Board of Directors, May 4, 2016

SAN BRUNO COMMUNITY FOUNDATION
INVESTMENT OPERATING PLAN

SUMMARY INVESTMENT OPERATING PLAN

QUASI-ENDOWMENT POOL

<u>Investment Objective:</u>	Generate a return in excess of the specified blended portfolio benchmark over a complete market cycle.
<u>Risk Tolerance:</u>	Moderately Conservative
<u>Target Return:</u>	Over the long-term, exceed the blended portfolio benchmark, net of fees with similar risk.
<u>Evaluation Benchmark:</u>	The passive indices in similar weights to the target asset allocation as detailed in Appendix 1.
<u>Withdrawal Requirement:</u>	Up to 7% annual withdrawals, as determined by the SBCF Board.
<u>Time Horizon:</u>	Long-Term
<u>Target Allocation:</u>	Balanced Strategy (see specific allocation guidelines in Section IV.1 of this plan document)

STRATEGIC POOL

<u>Investment Objective:</u>	Generate a return in excess of the specified blended portfolio benchmark over a complete market cycle.
<u>Risk Tolerance:</u>	Conservative
<u>Target Return:</u>	Over the long-term, exceed the blended portfolio benchmark, net of fees with similar risk.
<u>Evaluation Benchmark:</u>	The passive indices in similar weights to the target asset allocation as detailed in Appendix 1.
<u>Withdrawal Requirement:</u>	100% withdrawn over 7-10 years, dictated by the timing of capital projects and as determined by the SBCF Board.
<u>Time Horizon:</u>	Mid-Term
<u>Target Allocation:</u>	Conservative Strategy (see specific allocation guidelines in Section IV.2 of this plan document)

SAN BRUNO COMMUNITY FOUNDATION
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LIQUIDITY POOL

<u>Investment Objective:</u>	Generate a return in excess of the specified blended portfolio benchmark over a complete market cycle.
<u>Risk Tolerance:</u>	Conservative
<u>Target Return:</u>	Over the long-term, exceed the blended portfolio benchmark, net of fees with similar risk.
<u>Evaluation Benchmark:</u>	The passive indices in similar weights to the target asset allocation as detailed in Appendix 1.
<u>Withdrawal Requirement:</u>	100% withdrawn within 24 months, as determined by the SBCF Board.
<u>Time Horizon:</u>	Short-Term
<u>Target Allocation:</u>	Short-Term Cash and Short-Duration Fixed Income Strategy (see specific allocation guidelines in Section IV.3 of this plan document)

SAN BRUNO COMMUNITY FOUNDATION

INVESTMENT OPERATING PLAN

This Investment Operating Plan outlines the assumptions and understandings under which Sand Hill Global Advisors, LLC (the “Investment Manager” or “SHGA”) is to manage the assets of the San Bruno Community Foundation (“SBCF” or the “Foundation”). The content herein has been composed based upon meetings with the Board of Directors and staff in which discussions covered SBCF’s goals, attitudes, expectations, risk tolerance, desires for liquidity, and present and future cash flow requirements.

It is agreed that SHGA will meet with the Investment Committee on a quarterly basis to report on the status of the portfolio and to receive and provide information that will aid in the management of the portfolio. This Investment Operating Plan will be reviewed at least annually as to its appropriateness given any significant changes in SBCF’s needs or in light of significant shifts in the economy or the investment markets. Day-to-day contact with SBCF will be made via the telephone and e-mail.

This Investment Operating Plan shall adhere to the policies set forth in SBCF’s Investment Policy Statement, originally approved by the SBCF Board of Directors and San Bruno City Council in April 2016.

I. FOUNDATION’S PURPOSE AND GOALS

The San Bruno Community Foundation was established in 2013 by the San Bruno City Council to administer, for the long-term benefit of the San Bruno community, approximately \$70 million in restitution funds resulting from the devastating 2010 gas pipeline explosion in San Bruno’s Crestmoor neighborhood. SBCF has been charged with determining the use of the funds and administering them to benefit the San Bruno community through enduring and significant contributions to, and investments in, charitable and community programs, and publicly owned community facilities, over the long term.

The SBCF Investment Policy Statement establishes three separate pools of funds with varying purposes, time horizons, and withdrawal requirements:

1. A Quasi-Endowment Pool to support the annual operating and program expenses of the Foundation over the long term.
2. A Strategic Pool earmarked to cover the costs of major strategic grantmaking projects, including capital improvements of community facilities, over a 7-10 year period. The Strategic Pool will be fully exhausted either at the completion of those strategic projects, or by consolidation into the Quasi-Endowment Pool at the Board’s discretion.
3. A Liquidity Pool to act as a holding account for expenditures planned in the subsequent 0-24 months. The purpose of this pool is to mirror the Foundation’s operating accounts. This account may be funded by both the Quasi-Endowment and the Strategic Pool.

II. INVESTMENT GOALS AND OBJECTIVES

The primary goal of the Foundation is to administer these funds for the long-term benefit of the San Bruno community. The specific goals for these funds include but are not limited to supporting SBCF’s annual

SAN BRUNO COMMUNITY FOUNDATION

INVESTMENT OPERATING PLAN

operating expenses and the three categories of program activities outlined in SBCF's Program Strategy Framework (strategic grant making, responsive grant making, and Foundation programs).

The risk tolerance of each pool of funds is dictated by the time horizon and liquidity needs, and as directed by the Board of Directors. The specific goals and objectives, risk tolerance, and time horizon for each pool of funds is as follows:

1. **Quasi-Endowment Pool Investment Objectives:**

The Foundation seeks to meet the current payout objectives while maintaining the total purchasing power of these assets for the San Bruno community in the future. As such, Capital Appreciation is the primary objective, with Capital Preservation as the secondary objective.

a. Portfolio Return Objectives

- i. Total Portfolio Return: Achieve a time-weighted, real rate of return of 3-4%, after fees and program costs. This return will be sought using a diversified style of investment management, providing an average annual return that will be measured over a complete market cycle assumed to be five years.
- ii. Blended Benchmark Return: Over rolling five-year cycles, to achieve a return that exceeds the Blended Benchmark, net of fees with similar risk.

b. Portfolio Risk Tolerance - The risk to the portfolio must be moderately conservative, since the portfolio provides a source of funds that allows SBCF to perpetuate its mission.

c. Withdrawal Requirements - Up to 7% Annual Withdrawals as determined by the SBCF Board. The SBCF staff will provide Sand Hill Global Advisors with guidance in this area.

d. Time Horizon - Long-Term.

e. Tax Considerations - None, since this organization is tax exempt.

f. Illiquidity - The overall portfolio can maintain up to 10% illiquidity.

2. **Strategic Pool Investment Objectives:**

The Foundation seeks to achieve growth of the portfolio at a conservative rate in excess of inflation. As such, Capital Preservation is the primary objective.

a. Portfolio Return Objectives

- i. Total Portfolio Return: Achieve a time-weighted, real rate of return of 1-2%, after fees and program costs. This return will be sought using a diversified style of investment management, providing an average annual return that will be measured over a complete market cycle assumed to be five years.

SAN BRUNO COMMUNITY FOUNDATION INVESTMENT OPERATING PLAN

- ii. Blended Benchmark Return: Over rolling five-year cycles, to achieve a return that exceeds the Blended Benchmark, net of fees with similar risk.
 - b. Portfolio Risk Tolerance - The risk to the portfolio must be conservative.
 - c. Withdrawal Requirements - 100% withdrawn over 7-10 years, determined by timing of SBCF's strategic grant making projects. The SBCF staff will provide Sand Hill Global Advisors with guidance in this area.
 - d. Time Horizon - Mid-Term.
 - e. Tax Considerations - None, since this organization is tax exempt.
 - f. Illiquidity - The overall portfolio can maintain up to 5% illiquidity.
3. **Liquidity Pool Investment Objectives**:

The Foundation seeks to preserve the principal balance of all funds directed into this pool. As such, Capital Preservation and Liquidity are the primary objectives.

- a. Portfolio Return Objective - Achieve a time-weighted, real rate of return of above the prevailing rate of the U.S. 90 Day T-Bill, after fees and program costs.
- b. Portfolio Risk Tolerance - The risk to the portfolio must be conservative.
- c. Withdrawal Requirements - 100% drawdown within 24 months, as determined by the SBCF Board.
- d. Time Horizon - Short-Term.
- e. Tax Considerations - None, since this organization is tax exempt.
- f. Illiquidity - The overall portfolio must maintain 100% liquidity.

III. INVESTMENT AND ASSET GUIDELINES

Sand Hill Global Advisors will utilize an appropriate combination of individual securities in direct accounts and specialized third party, commingled fund or mutual fund alternatives to implement the asset allocation. Implementation will include passive strategies such as index funds or exchange-traded funds (ETFs) and active strategies. Third-party offerings will be used to enhance the portfolio's diversification in certain asset classes that require specialized expertise or where liquidity may be limited. In each case, the potential for added value, institutional share class fees and cost effectiveness will be a major consideration.

A Direct Account is defined as any investment account registered in the name of the Foundation.

SAN BRUNO COMMUNITY FOUNDATION
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1. Individual Equity Securities in the Direct Account:

- a. No individual equity securities (stocks) will be held in any Direct Account.
- b. Direct investments in any equity securities of Pacific Gas & Electric Corporation (Symbol: PCG) are prohibited.

2. Individual Fixed Income Securities in Direct Accounts:

- a. Individual fixed income securities (bonds) may be held in Direct Accounts. These include, but are not limited to, municipal bonds, U.S. government securities, federal government agency securities, corporate debt (limited to U.S. or multinational corporations), and high yield debt.
- b. With the exception of U.S. government securities and federal government agency securities, no more than 5% at cost of the portfolio may be invested in the securities of a single issuer.
- c. Up to 5% of the total account may be invested in below investment grade securities, commonly referred to as “high yield debt,” but only through adequately diversified investment vehicles.
- d. Direct investments in any fixed income securities of Pacific Gas & Electric Corporation are prohibited.

3. Commingled Funds, Mutual Funds and Index Funds:

- a. Commingled funds, mutual funds, and index funds may be held in Direct Accounts.
- b. The fund selection process will incorporate criteria such as investment style and process, experience of the investment team, organizational stability and performance analysis such as long-term, risk-adjusted returns, manager tenure, relative performance in up and down markets, consistency of management style, and the associated cost to own (expense ratio). When appropriate, negotiations will occur with custodians for the waiver of loads, minimums, and transaction fees.

4. Other Investments:

- a. Other investments may be held in Direct Accounts.
- b. Other investments will be broadly defined, but not limited to, as investments in market-neutral funds, commodities and gold, real return strategies, venture capital, and real estate. These categories are to be implemented only through diversified investment vehicles.
- c. In the case of market neutral private partnerships, the diversification should be achieved through the use of a “fund of funds.”
- d. The real estate portion may be comprised of private and publicly held real estate investments.

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5. Cash and Cash Equivalents:

- a. Cash and cash equivalents may be held in Direct Accounts.
- b. Cash equivalent positions will be high quality instruments such as U.S. Treasury Bills, Eurodollar Certificates of Deposit, time deposits (CDs), money market funds, and repurchase agreements.

6. Investment Procedures:

- a. Diversification: All portfolios will be managed as diversified portfolios. The goal of diversification across various asset classes, sectors, and security types is to minimize risk while improving performance.
- b. Investment Vehicles: Within the constraints of the target asset allocation of each portfolio, investments will be allocated across various asset classes, either directly or through pooled or commingled investment accounts (mutual funds and index funds), that might include domestic and foreign equities, bonds, real estate, alternative investments, and cash or cash equivalents. With each asset class, the Investment Manager will weigh factors including expense, market efficiency, transparency of information, and diversification to determine whether direct investments or commingled investments are in the Foundation's best interests.
- c. Rebalancing: Rebalancing is designed to minimize portfolio deviations from allocation targets. The portfolio will be reviewed regularly by the Investment Manager and rebalanced whenever the weighting of a major asset class deviates materially from the target asset allocation, or a tactical opportunity presents itself.
- d. Custody of Assets: The Foundation's assets shall be held at a third-party custodian recommended by the Investment Committee and approved by the Board. The Investment Manager shall have discretion and authority to trade on behalf of the Foundation via the custodian's trading platform.
- e. Custodian's Margin Loan Option: A Margin Loan allows a brokerage account holder to gain access to cash by borrowing against the invested securities in the account. The margin loan option on any Direct Accounts shall be disabled.

IV. ASSET ALLOCATION

Generally, the allocations for each pool will be within the ranges shown below; however, SHGA is permitted to have a more defensive position that may result from significant cash inflows or outflows. Initial implementation of all three pools will be achieved over a three-month transitional period involving staggered commitments. The initial funding of the three pools will be a combination of cash and fixed income securities (government bonds and CDs).

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INVESTMENT OPERATING PLAN

1. Quasi-Endowment Pool

	<u>Bottom Range</u>	<u>Target</u>	<u>Top Range</u>
EQUITY	40%	52%	65%
FIXED INCOME	20%	30%	40%
REAL ESTATE AND COMMODITIES	0%	8%	15%
MARKET NEUTRAL	0%	8%	15%
CASH AND CASH EQUIVALENTS	0%	2%	15%

2. Strategic Pool

	<u>Bottom Range</u>	<u>Target</u>	<u>Top Range</u>
EQUITY	12%	16%	20%
FIXED INCOME	53%	70%	88%
REAL ESTATE AND COMMODITIES	0%	4%	8%
MARKET NEUTRAL	0%	8%	12%
CASH AND CASH EQUIVALENTS	0%	2%	15%

3. Liquidity Pool

	<u>Bottom Range</u>	<u>Top Range</u>
SHORT DURATION FIXED INCOME	0%	100%
CASH AND CASH EQUIVALENTS	0%	100%

Duration is defined as an approximate measure of a bond's price sensitivity to changes in interest rates. Shorter the duration means the less interest rate risk and longer duration means more interest rate risk. The average duration of the fixed income portion of the Liquidity Pool will range from 0 to 24 months, consistent with spending timeline described in Section VII.3 of the Foundation's Investment Policy Statement.

SAN BRUNO COMMUNITY FOUNDATION
INVESTMENT OPERATING PLAN

V. BROKERAGE AND PROXY POLICY

1. All transactions effected for SBCF will be “subject to the best price and execution.” Securities and cash will be held in custody at Fidelity Investments.
2. Proxy voting has been delegated to SHGA. SHGA has retained Broadridge to vote proxies.

VI. CONTROLS AND MONITORING

1. Payout and Withdrawals:

- a. For unplanned withdrawals from any SBCF pool, SBCF staff will notify SHGA a minimum of five business days in advance to allow time for trade execution, trade settlement and fund transfer through the Liquidity Pool (if necessary) and out to SBCF’s external operating account.
- b. Notice in excess of five business days will provide additional time for SHGA to manage the liquidation of securities.
- c. If notice is provided less than five business days in advance, SHGA will attempt to fulfill the withdrawal request on a best efforts basis. SBCF has restricted the use of margin on all accounts, therefore cash must be available to be withdrawn.
- d. Pool-Specific Operating Guidelines:

i. Quasi-Endowment Pool

Payout amount will be determined once annually, prior to the conclusion of the Foundation’s fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve prior quarter-ending Quasi-Endowment values. From the initial funding of the Quasi-Endowment Pool through the end of fiscal year 2016-2017, the payout rate will be 0%. During fiscal years 2017-2018 and 2018-2019, the default payout rate will be 3%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision. One-twelfth (1/12) of the annual payout amount will be withdrawn from the Quasi-Endowment and deposited in the Liquidity Pool on a monthly basis.

ii. Strategic Pool

Withdrawals will be determined by the timing of project expenditures, per guidance from the SBCF Board. SBCF will provide a schedule of likely withdrawals to SHGA at the time of the annual budget planning process. Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis.

iii. Liquidity Pool

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The Liquidity Pool will contain funds that have been earmarked for disbursement by the SBCF Board, with the guidance from the Investment Committee. As directed by SBCF staff, withdrawals will take place in the subsequent 0-24 months following initial deposit into the Liquidity Pool.


2. **Quarterly Reviews** – SHGA will provide the SBCF Investment Committee with quarterly performance and holdings reports to allow the Committee to review the investment performance of SHGA and the individual investments (retained by SHGA) in the portfolio with respect to the risk and return objectives established for SBCF. The review may include topics such as the overall business management, organizational changes and other relevant factors.
3. **Annual Board Meeting** – SHGA will present to the full SBCF Board of Directors on an annual basis.

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SAN BRUNO COMMUNITY FOUNDATION
INVESTMENT OPERATING PLAN

VII. SIGNATURES

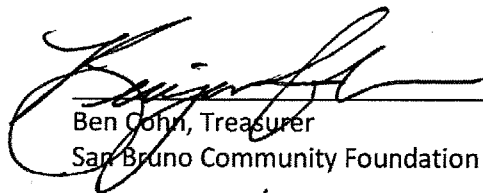
Reviewed and Accepted By:



Brian Dombkowski, CFA
Chief Executive Officer
Sand Hill Global Advisors, LLC

Date: 5/11/16

Reviewed and Accepted By:



Ben Cohn, Treasurer
San Bruno Community Foundation

Date: 5/4/16



Leslie Hatamiya, Executive Director
San Bruno Community Foundation

Date: 5/4/16

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INVESTMENT OPERATING PLAN

APPENDIX

1. Benchmark Composition

The Blended Benchmark will be used for the total portfolio review and to review SHGA. Individual asset classes will be reviewed using the indices most appropriate and assigned to each manager or investment style.

The Blended Benchmark is composed as follows:

Asset Class	Index	Weight		
		<u>QEP</u>	<u>SP</u>	<u>LP</u>
Equity				
Domestic Large Capitalization	S&P 500 Index	30%	9%	0%
Domestic Small Capitalization	Russell 2000 Index	9%	3%	0%
International	MSCI All-Cap World Index excl. USA	13%	4%	0%
Fixed Income	Barclays Capital Aggregate Index	30%	70%	0%
Real Estate	NAREIT Index	6%	4%	0%
Commodities/Natural Resources	Dow Jones UBS Commodity Index	2%	0%	0%
Market Neutral	Barclays 1-3 Year Aggregate Index	8%	8%	0%
Cash/Cash Equivalents	U.S. T-Bill 90 day Index	2%	2%	100%

SAN BRUNO COMMUNITY FOUNDATION
INVESTMENT OPERATING PLAN

2. Benchmark Definitions

EQUITY MARKET INDICATORS

The market indicators included in this report are regarded as measures of equity or fixed-income performance results. The returns shown reflect both income and capital appreciation.

Standard & Poor's 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index is capitalization-weighted, with each stock weighted by its proportion of the total market value of all 500 issues. Thus, larger companies have a greater effect on the index.

Russell 2000 Index is composed of the 2000 smallest stocks in the Russell 3000 Index, representing approximately 11% of the U.S. equity market capitalization.

INTERNATIONAL EQUITY MARKET INDICATORS

Morgan Stanley Capital International (MSCI) All Cap World Index (ACWI) Ex-USA Index is composed of approximately 6,000 equity securities representing the stock exchanges of Europe, Australia, New Zealand, the Far East and Emerging Market nations capturing 99% of the global investable market outside of the US. The index captures large, mid and small-cap companies. The index is capitalization-weighted and is expressed in terms of U.S. dollars.

FIXED-INCOME MARKET INDICATORS

Barclays Capital Aggregate Bond Index is a combination of the Mortgage Backed Securities Index and the intermediate and long-term components of the Government/Credit Bond Index.

OTHER INDICES

National Association of Real Estate Investment Trusts (NAREIT) Index is the only REIT index to include all REITs currently trading on the New York Stock Exchange, the NASDAQ National Market System and the American Stock Exchange. It is also the first index to include monthly historical statistics from 1972. It is often used as a publicly traded approximation for the illiquid private real estate market.

Dow Jones UBS Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. Commodities as an asset class have historically demonstrated returns that are negatively correlated with returns of stocks and bonds and that are positively correlated with inflation measures.

Barclays 1-3 Yr Aggregate Bond Index is a combination of the Mortgage Backed Securities Index and the shorter duration components of the Government/Credit Bond Index.

U.S. T-Bill 90 Day Index is the benchmark used to measure cash. It is also considered to be the “risk-free rate” for the purposes of performance measurement.

RESOLUTION NO. 2017-__

RESOLUTION OF THE SAN BRUNO COMMUNITY FOUNDATION INVESTMENT COMMITTEE RECOMMENDING TO THE SBCF BOARD OF DIRECTORS AN AMENDMENT TO THE QUASI-ENDOWMENT PAYOUT FOR FISCAL YEAR 2017-2018 IN THE INVESTMENT OPERATING PLAN

WHEREAS, under Section II.2.a. of the Investment Policy Statement of the San Bruno Community Foundation, the Investment Committee is tasked to “review at least annually the Investment Policy Statement and Investment Operating Plan and monitor compliance with both documents”;

WHEREAS, the Section VII.1 of the Investment Policy Statement sets forth the spending policy for the Quasi-Endowment as follows:

The SBCF Board will determine the spending policy for the Quasi-Endowment with input from the Investment Committee. The SBCF Board will use the following guidelines in approving a fixed payout amount each year. The SBCF Board will review this policy annually.

The payout amount will be determined once annually, prior to the conclusion of the Foundation’s fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve (12) prior quarter-ending Quasi-Endowment values.

WHEREAS, Section VI.1.d. of the Investment Operating Plan provides pool-specific operating guidelines for payout or other withdrawals, including the following for the Quasi-Endowment Pool:

Payout amount will be determined once annually, prior to the conclusion of the Foundation’s fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve prior quarter-ending Quasi-Endowment values. From the initial funding of the Quasi-Endowment Pool through the end of fiscal year 2016-2017, the payout rate will be 0%. During fiscal years 2017-2018 and 2018-2019, the default payout rate will be 3%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision. One-twelfth (1/12) of the annual payout amount will be withdrawn from the Quasi-Endowment and deposited in the Liquidity Pool on a monthly basis.

WHEREAS, a lower Quasi-Endowment payout rate of 1.98% for 2017-2018 would provide the funds to cover cash flow needs for the Crestmoor Neighborhood Memorial Scholarship and the Community Grants Fund, consistent with the original long-term vision for the Quasi-Endowment, and allow the Quasi-Endowment to continue to grow; and

WHEREAS, the Investment Committee believes that a decision on the 2018-2018 Quasi-Endowment payout rate should be made at the end of the 2017-2018 fiscal year in order to best assess the cash needs and grantmaking commitments at that time.

NOW, THEREFORE, BE IT RESOLVED that the Investment Committee recommends that the Board of Directors amend Section VI.1.d.i. of the Investment Operating Plan to now read as follows:

Payout amount will be determined once annually, prior to the conclusion of the Foundation's fiscal year for the subsequent fiscal year. The payout rate will range up to 7%, as determined by the Board, multiplied by the average of the latest available twelve prior quarter-ending Quasi-Endowment values. From the initial funding of the Quasi-Endowment Pool through the end of fiscal year 2016-2017, the payout rate will be 0%. During fiscal year 2017-2018, the default payout rate will be 1.98%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision. One-twelfth (1/12) of the annual payout amount will be withdrawn from the Quasi-Endowment and deposited in the Liquidity Pool on a monthly basis.

Dated: May 17, 2017

ATTEST:

Tim Ross, Investment Committee Chair

I, Tim Ross, Chair, do hereby certify that the foregoing Resolution No. 2017-__ was duly and regularly passed and adopted by the Investment Committee of the San Bruno Community Foundation on this 17th day of May, 2017, by the following vote:

AYES: Committee members:

NOES: Committee members:

ABSENT: Committee members: