

THE FUND FOR SANTA BARBARA

INVESTMENT POLICY STATEMENT

Endowment Fund for the Future

Preamble

The FUND FOR SANTA BARBARA is a 501c3 not-for-profit community foundation established in 1980 to provide resources to organizations and projects in Santa Barbara County working for progressive social, economic, environmental and political change at the grassroots level.

We believe that charity, while an important strategy to provide for basic needs, does not address the root causes of societal conditions such as violence, poverty, racism, illness and prejudice. We support projects and organizations which seek to advocate, organize and educate to address these challenges at their roots. We fund local organizations which work to end discrimination of every kind, advocate for the dignity and rights of working people, promote self-determination in low-income and disenfranchised portions of our community, promote peace and non-violence, work toward a healthier environment and advocate for responsible government. We give preference to innovative grassroots endeavors which are unlikely to receive funding from more traditional sources. We also provide organizations with training and technical assistance to ensure that their projects will succeed.

Mission Consistent Investment Policy Statement

In an effort to remain consistent with its objectives and mission of supporting progressive social change, the FUND FOR SANTA BARBARA will follow the principles of Mission Consistent Investing (MCI) whenever possible.

We recognize that we are both dependent on and responsible to our community of supporters, grantees and allies. As such we seek to maximize the return on our invested assets while remaining consistent with our risk parameters as well as our political principles. We believe that in addition to our grant-making and technical assistance programs, our invested assets can and should be used as a tool to advance our values. We recognize that our investment choices have an impact on economic activity in our community, which in turn has an impact on the issues with which we are concerned.

These guidelines are intended to serve as a framework for the investment of the FUND FOR SANTA BARBARA'S (herein referred to as the FUND) endowment assets and for monitoring the use of those assets and their investment return. They are subject to amendment and revision at anytime by the Board of Directors.

I. Endowed Asset Management - Overview

The purpose of the endowment is to maintain a pool of assets which will generate income in perpetuity. The Board of Directors as stewards of the endowment recognizes the challenges of a) preserving the principal in current (inflation adjusted) dollars and b) providing for increasing income from the endowment over time.

II. Objectives

A. In order to meet these challenges, the Board of Directors has approved an investment and spending plan that includes the following:

1. General - The overall objective in the management of the FUND 's Endowment assets is to conserve the value of the endowment in current dollars, net of annual contributions and distributions, by investing in a balanced portfolio comprised of equity, fixed income and cash equivalent securities and alternative assets.
2. Liquidity & Periodicity - annual distributions shall be set at 5% of the rolling average of the three most recent June 30th market values. The annual payout budgeted for any given fiscal/calendar year shall be made in two equal parts in June and December. (i.e. a \$100,000 pay out for FY 2008 shall be made in two parts: \$50,000 in June and \$50,000 in December)

III. Goals

A. The specific goals of the FUND FOR SANTA BARBARA Endowment Fund are:

1. to achieve a total return equal to or exceeding CPI plus 5%,
2. to equal or exceed the total return of a blended benchmark index consisting of 60% Domini 400 Social Index / 35% Lehman Aggregate Bond Index / 5% three month U.S. Treasury Bills, and
3. to limit volatility, as measured by standard deviation, to no more than that of the blended benchmark index.

IV. General Investment Guidelines

A. Overall Asset Allocation

The FUND believes that its objectives and goals are best served by diversification among and within asset classes, including equities, bonds, money market instruments, and alternative investments.

The Board of Directors, with input from the Investment Advisory Committee and Manager(s), has set benchmark indices for the endowment fund and asset allocation ranges for the portfolio as provided in the table below. Each Manager has discretion for the portion that they manage to set asset allocation subject to regular review by the Investment Advisory Committee and Board of Directors. Only the Board, working with the Investment Advisory Committee, can modify these ranges.

Strategic Asset Allocation			
	Long-term Target	Lower Limit	Upper Limit
Total Equities	60%	40%	80%
<i>U.S. Large Cap</i>	<i>35%</i>	<i>25%</i>	<i>65%</i>
<i>U.S. Mid Cap</i>	<i>10%</i>	<i>5%</i>	<i>15%</i>
<i>U.S. Small Cap</i>	<i>5%</i>	<i>5%</i>	<i>10%</i>
<i>International*(may include up to 5% in emerging markets)</i>	<i>10%</i>	<i>5%</i>	<i>20%</i>
Fixed Income	35%	15%	55%
Money Market Instruments	5%	0%	10%
Alternative Assets	Unassigned	0%	5%

Benchmark market indices may include: S&P 500, Russell 2000, Morgan Stanley Capital International EAFE, Lehman Brothers U.S. Aggregate Bond, 91-day U.S. Treasury Bills, Domini 400 Social Index, and others to be agreed on with the Manager(s).

B. Equities

The equity portion of the portfolio may consist of common stocks, preferred stocks convertible securities, real estate investment trusts (REITs), American Depository Receipts (ADRs), mutual funds, and exchange traded funds (ETFs). The portfolio should be well diversified to avoid undue exposure to any single economic sector, industry group, or individual security. No individual security shall exceed 5% of total equity portion of the portfolio at time of purchase.

Portfolio securities should be of good quality and listed on either the New York Stock Exchange or American Stock Exchange or traded in the over-the-counter market with the requirement that such stocks have adequate market liquidity relative to the size of the investment.

C. Fixed Income

The structure of the bond portfolio and the selection of individual securities are matters of investment management discretion, developed primarily in response to changing market relationships, interest rate forecasts, and economic circumstances.

Manager(s) shall maintain the duration of the fixed income portfolio between one year and 150% of benchmark duration. The vast majority of fixed income securities should be of investment grade with maturities no greater than thirty years.

The fixed income portion of the portfolio should be well diversified to avoid undue exposure to any single economic sector or individual issuer or country. No limitations are

placed on the percentage of the fixed income portfolio that may be invested in U. S. Government and Agency obligations. No single issuer fixed income security of less than investment grade shall make up more than 1% of the total fund portfolio at purchase.

D. Money Market Instruments

Short term cash equivalent investments shall consist of money market mutual funds or individual fixed income securities such as Certificates of Deposit, Commercial paper rated A-1/P-1 or better by Moody's® and Standard & Poor's, high quality corporate fixed income securities, U.S. Treasury bills, repurchase agreements collateralized by U.S. Treasury or Agency Securities, and other similar instruments with less than one year to maturity and/or money market funds.

E. Alternative Asset Classes

The FUND endowment portfolio may hold up to 5% in illiquid assets. These assets may only be held subject to approval by the Investment Advisory Committee. In executing these transactions, the Investment Advisory Committee and Manager(s) will consider risk/reward potential, leverage, liquidity, and other investment qualities in the context of enhancing a diversified portfolio and consistent with the investment objectives of the Fund, including reasonable expense.

F. Restrictions

The following restrictions must be observed:

1. no trading on margin or in futures, options, forwards or swaps (this does not preclude covered call-writing strategies).
2. no trading in individual commodities or commodity contracts
3. no lending nor utilization of assets in the portfolio as collateral
4. no short sales
5. no investments
 - a) jointly with members of the Board of Directors, staff, advisory or acting committee members, agents, or
 - b) in a manner in which a Board member, staff member, committee member or agent may realize financial gain, or
 - c) which could cause or result in a conflict of interest with Board members, staff or agents.

V. Delegation and Responsibilities

A. Board of Directors

Supervisory Authority – The Board has delegated supervisory authority over its financial affairs to the Investment Advisory Committee (IAC) of the Board. In carrying out these responsibilities, the Chair of Investment Advisory Committee and/or Executive Director will work with the Investment Advisory Committee as appropriate and will act in accordance with this Investment Policies and all applicable laws and regulations. The Board reserves to itself the exclusive right to revise, or grant exceptions to, the Policies.

Investment Manager(s) Retention - The Board is authorized to retain one or more Investment Manager(s) (generally herein singly and collectively referred to as “Manager(s)”) to assume the investment management of funds and assets owned or

administered by the Fund. The Board may obtain recommendation from the Investment Advisory Committee before retaining any such Manager(s).

B. Investment Advisory Committee

Membership

The Investment Advisory Committee (IAC) serves at the pleasure of the Board of Directors. All members of the IAC must be approved by the Board of Directors at a regularly scheduled meeting. Nominations for IAC membership may be made by current members of the IAC or Board of Directors. IAC members may serve up to four three-year terms. The IAC shall have up to five members, including the Treasurer of the Board of Directors.

Investment Policy Guidelines - In order to assure relevance of the guidelines, the Fund's strategic and financial and MCI objectives, the Fund's financial status, and capital market expectations, the Investment Committee will review the guidelines periodically and recommend any changes to the Board of Directors.

Investment Performance Evaluation - The Investment Advisory Committee shall evaluate not less than once per year the overall performance of the Endowment Fund and each individual Manager relative to:

- asset allocation
- performance versus benchmark indices and investment goals
- compliance with investment policy guidelines.

Each individual Manager will also be evaluated relative to:

- customer service
- personnel
- research capabilities
- fees
- financial condition
- organizational structure
- MCI capabilities and strategies

The FUND may choose to engage the services of a consultant to assist in this analysis. That consultant may be chosen by the Investment Advisory Committee, subject to the approval of the Board of Directors.

Regular Reports – The Investment Advisory Committee shall report regularly (not less than once per year) to the Board of Directors on its activities.

C. Investment Manager(s)

Authority of Manager(s) in the Managed Accounts - The Investment Manager(s) shall comply with the FUND's commitment to invest its assets in a Mission Consistent manner, consistent with its moral and ethical objectives. Subject to the terms and conditions of these guidelines, Manager(s) shall have full discretionary authority to direct investment, exchange, and liquidation of the assets of the managed accounts. Manager(s) shall seek to implement the Mission Consistent Investment (MCI) objectives of the FUND, through securities research, proxy voting, shareholder advocacy and other initiatives.

Reporting - Manager(s) have the responsibility for frequent and open communication with the Investment Advisory Committee on all significant matters pertaining to the assets managed. This includes provision of quarterly statement of Fund endowment assets, transactions, investment performance, MCI activities, and market commentary and outlook. As requested, Manager(s) will present such information to the Board of Directors. As appropriate, Manager(s) will advise the Executive Director of any significant changes in its ownership, investment personnel, or investment philosophy.

D. Executive Director

Executive Director will be responsible for advising Manager(s) in a timely manner of the Fund's cash distribution requirements from any managed portfolio or fund and of any changes to this Investment Policy Statement.

(Adopted 4/19/93)

(Revised 4/18/96)

(Revised 8/18/08)