



# Statement of Investment Policy

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# Statement of Investment Policy

## STATEMENT OF INVESTMENT POLICY

### 1. Introduction

This document presents the investment process of Silicon Valley Community Foundation's (SVCF) endowment and donor advised investment pools, including investment objectives, asset allocation, investment restrictions and review procedures (collectively, the "policy"). There are six distinct investment pools covered by this policy: the Endowment Pool, the Long-Term Growth Pool, the Social Impact Pool, the Balanced Pool, the Short-Term Pool and the Capital Preservation Pool (collectively, the "pools").

It is intended that the objectives of endowed and non-endowed funds be met through the use of an appropriate combination of these pools. Each pool is invested in order to achieve its return objective while assuming an appropriate level of risk.

For endowed funds, the primary objective is to preserve the fund's purchasing power through asset growth that is at least equal to the spending policy currently in effect plus the rate of inflation.

### 2. Investment Responsibilities

The investment committee has the responsibility for recommending to the board of directors the establishment and modification of all elements of this policy, and overseeing its execution. Once approved by the board, the investment committee, community foundation staff, the investment consultant and investment managers will be charged with implementing this policy.

### 3. Investment Committee Responsibilities

- Establish an overall investment philosophy and guiding principles for the development of investment strategy and process.
- Ensure that roles and responsibilities are clear, decision making is efficient and void of biases and policies and procedures are effective.
- Establish the investment pool structure that will be offered to donors, including the number of pools and the risk level of each.
- Establish the asset allocation targets, permitted ranges and re-balancing strategy for each pool.
- Oversee the process of investment manager selection in accordance with the strategic asset allocation set forth in this policy.
- Establish appropriate performance benchmarks and metrics of success for each pool.
- Monitor the investment performance of each pool and each manager versus the manager's benchmark, using reports prepared by the investment consultant.

- Monitor the appropriateness of each manager's investment strategy given SVCF's overall investment strategy, philosophy and objectives.
- Oversee the process of monitoring manager portfolios to ensure compliance with this policy, its guidelines and restrictions.
- Monitor investment expenses.
- Monitor evolving opportunities and perils arising from changing conditions in global capital markets.
- Review this policy on an ongoing basis and recommending changes as necessary or desirable.

### 4. Community Foundation Staff Responsibilities

- Implement the investment policy and decisions of the investment committee.
- Conduct periodic review of investment consulting services and fees, and recommend investment.
- Supervise and direct the investment consultant selection to the investment committee consultant to ensure that all elements of this policy are followed, including the sourcing and selection of investment managers.
- Approve temporary exceptions to the guidelines/restrictions when requested by investment managers. This will be done with the advice of the investment consultant. The investment committee will be notified of any manager requests and SVCF's decision to approve or reject an exception.
- Evaluate pool performance against peer groups and report to the investment committee.
- Develop investment committee agendas and materials in coordination with the committee chair and investment consultant.
- Assist fund advisors in selecting appropriate investment pool allocations.
- Communicate investment information and results to fundholders and key constituents.

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## 5. Investment Consultant Responsibilities

- Actively provide advice and recommendations regarding asset allocation strategy, manager selection, rebalancing, market conditions and any other matters relevant to achieving the objectives of each investment pool.
- Maintain an inclusive process for sourcing, evaluating and recommending investment managers across race, ethnicity and gender. Annually report to SVCF the number of diverse managers evaluated, recommended and hired across consultant's client base.
- Assist staff and the investment committee with their responsibilities.
- Monitor this policy and actively recommending changes as needed
- Monitor each investment manager's ownership structure and investment personnel. Replace or terminate managers when appropriate and report changes to staff and the investment committee.
- Monitor each investment manager for adherence to this policy as well as to the manager's stated investment style. Replace or terminate managers when appropriate and report changes to staff and the investment committee.
- Meet in person with each of SVCF's active investment managers at least once per year.
- Advise staff and assist with all aspects of manager transitions, adding or withdrawing cash from the pools and re-balancing.
- Monitor and report investment performance results for each pool, asset class and manager against specified benchmarks.

## 6. Investment Manager Responsibilities

Managers are expected to follow the prudent investor guidelines that are widely used in the investment management industry. These include, but are not limited to, fiduciary standards described in the Uniform Prudent Investor Act (UPIA), the Uniformed Prudent Management of Institutional Funds Act (UPMIFA) and the Global Investment Performance Standards (GIPS) that are promulgated by the Investment Performance Council of the CFA Institute. As fiduciaries, all managers are expected to uphold the highest ethical standards and to carry out their investment responsibilities in order to promote the best interests of SVCF. Specific duties include:

- Immediately report any findings against the firm or its principals, either by the SEC or any other regulatory authority. In addition, any lawsuits brought against the firm or its principals related to the manager's business activities must be reported immediately to SVCF.

- Prepare quarterly written statements, including actions taken in the portfolio and expected changes in the portfolio.
- For managers of commingled funds, provide their proxy voting record to SVCF no less than annually. Separate account managers should vote all proxies to increase shareholder value unless directed by SVCF to do otherwise.
- Attend meetings with the consultant, staff and committee as needed.
- Immediately communicate all pertinent changes in the manager's firm to the investment consultant and to SVCF. This includes, but is not limited to:
  - Changes in personnel involved in SVCF's relationship
  - Changes in ownership
  - Changes in senior investment professionals' responsibilities
  - Changes in investment style or process
- Adhere to the investment strategy or style for which the manager was selected.
- Execute all transactions in the best interests of the clients. This usually involves obtaining the best net realized price for a purchase or a sale. It also includes using commissions to obtain research or other services that are expected to enhance both the investment process and the returns.
- The requirements listed above apply to all community foundation managers. **Appendix B** of this document contains additional restrictions, organized by asset class, which apply only to separate account managers as commingled vehicles are not governed by SVCF's policy but by their prospectus or offering document. Separate account managers are responsible for immediately reporting in writing any violations of the guidelines and restrictions as set forth in **Appendix B**.

## 7. Spending Policy

SVCF has adopted investment and spending policies for endowment assets that are consistent with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by California on September 30, 2008. These policies work together to attempt to provide a predictable stream of funding to programs supported by endowment funds while seeking to maintain the purchasing power of the endowment assets. Both policies are reviewed and approved annually by the board of directors. To support the spending rate determined by the board while also maintaining purchasing power, the necessary long-term rate-of-return objective relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and

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unrealized) and current yield (interest and dividends).

In determining the amount to appropriate for spending, or accumulation, the board shall consider, if relevant, all of the following factors:

1. The duration and preservation of the endowment fund,
2. The purposes of the foundation and the fund,
3. General economic conditions,
4. Effects of inflation and deflation,
5. Expected total return from income and appreciation,
6. The foundation's other resources, and
7. The foundation's investment policy.

## 8. Investment Philosophy

SVCF believes that strong, consistent investment returns are best produced by maintaining a disciplined investment process over time. The guiding principles underpinning the investment process emphasize a well-diversified asset allocation strategy, use of highly talented investment managers and a long-term point of view.

SVCF's investment pools are constructed in such a way as to achieve return objectives while minimizing volatility to the degree possible. This is best accomplished through the use of a well-diversified asset allocation strategy.

There is significant evidence that long-term investors do not benefit from attempting to earn returns through short-term asset class forecasts or market timing. As a result, SVCF has adopted a strategic long-term asset allocation for each pool. Over time, each pool will remain invested in percentages that are targeted to those called for in the strategic allocation. The current strategic asset allocation, including targets and acceptable ranges for the investment pools, is outlined in **Appendix A**.

Within each asset class, SVCF seeks to earn the most efficient rate of return possible (after investment expenses). Investments will be well diversified by investment style and strategy. Style/strategy diversification will increase the probability over three- to five-year time periods that SVCF will achieve its investment goals and reduce volatility. SVCF has adopted specific requirements and restrictions for each asset class. These are described in **Appendix B**.

Investment managers must demonstrate the ability to meaningfully outperform an appropriate benchmark over a full market cycle which may cover a decade or more. SVCF is willing to invest with smaller, newer or less proven investment teams when they demonstrate exceptional talent and sound operational practices. When such managers cannot be identified, or have been identified but are closed to taking new capital, index funds will be utilized.

## 9. Performance Objectives

In order to achieve the objectives stated in the introduction to this policy, SVCF's endowment funds seek to earn a rate of return that is at least equivalent to the rate of inflation plus the spending rate. Given that this benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated over 10 to 20 years.

In order to evaluate the performance of the non-endowment pools and the investment managers over shorter time periods, SVCF has also adopted a market benchmark for each pool and each manager. For each pool as a whole, the total portfolio benchmark ("policy benchmark") will consist of a suitable index for each asset class used. These indices will be weighted on a monthly basis according to SVCF's strategic asset allocation targets for the pool, as listed in **Appendix A**. SVCF's goal, over each five-year time period, is to earn a rate of return for each pool that exceeds the benchmark return after investment management fees have been deducted.

## 10. Administrative and Review Procedures

Each investment pool will be periodically re-balanced first from net cash flows in and out of the pool and then by liquidations from over-funded managers at the recommendation of the investment consultant. SVCF staff and the investment consultant will perform the above review at least monthly.

The investment committee will review the performance of each pool's assets at each quarterly meeting with the assistance of the investment consultant and SVCF staff.

These reviews will include:

- Review of each pool's asset allocation to assure compliance with this document.
- Review of performance against the benchmarks set forth in this document.
- Review of performance against various peer group surveys.

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## APPENDIX A—STRATEGIC ASSET ALLOCATION & PORTFOLIO BENCHMARKS

1. SVCF has adopted the strategic asset allocation strategies listed in this appendix for each of the investment pools. All figures listed here refer to an asset class's percentage of the total of the respective pool. Within donor advised funds, donors may recommend the asset allocation between the pools.
2. For charities participating in the Nonprofit Investment Program, the charity is responsible for the asset allocation decision between the pools. SVCF shall use reasonable efforts to rebalance the assets held in the charity's fund to their target allocation set forth in the investment allocation form; provided, however, that participating charity acknowledges and agrees that there may be particular circumstances that arise where, in SVCF's reasonable determination, rebalancing is not prudent, because doing so may generate unnecessary costs or otherwise not be in the best interests of the charity's fund. In the event the fund remains outside of its investment allocation targets for a period of two months or more, a full report of the actions taken or not taken by community foundation shall promptly be made to the participating charity.
3. The minimum and maximum weights listed here represent the acceptable allocation ranges for each asset class. Actual asset allocation will be compared to these ranges on a monthly basis. In the event that the allocation to a particular asset class falls outside of acceptable range, the pool will be re-balanced so that all asset classes are within their permitted allocations.
4. These tables also list a market benchmark for each asset class, which is used to construct a total portfolio benchmark for each pool based on the strategic asset allocation listed here. Each manager will be compared to the asset class benchmark listed here along with a market index that more closely reflects the manager's investment style where appropriate. Furthermore, managers will be evaluated based on the volatility of their results compared to the benchmark and to an appropriate universe of their peers.
5. Please note that peer universes generally confirm the conclusions reached by comparing results to an appropriate market benchmark. Furthermore, as peer universes always include strategies that vary considerably and cannot themselves be purchased inexpensively, SVCF places more value on benchmark comparisons.
6. Finally, the time horizon for evaluating managers will vary considerably and is a function of the interaction between a manager's investment philosophy and market conditions at different points in time. Furthermore, SVCF does not evaluate its managers purely on the basis of performance as issues such as stability of personnel, investment discipline and the quality of a manager's ongoing security selection decisions are also among the factors to be considered.

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## Endowment Pool

This pool has a broad target allocation of 50% equity, 15% fixed income and 35% alternative investments. It is designed for donor restricted or board designated endowment funds.

Asset Class	Target	+/-	Min.	Max.	Benchmark
U.S. Large/Mid Cap Equity	16.0%	± 3%	13.0%	19.0%	S&P 500
U.S. Small Cap Equity	5.0%	± 2%	3.0%	7.0%	Russell 2000
International Developed Markets Equity	14.0%	± 3%	11.0%	17.0%	MSCI EAFE
International Emerging Markets Equity	5.0%	± 3%	2.0%	8.0%	MSCI Emerging Markets Free
Global Equity	10.0%	± 3%	7.0%	13.0%	MSCI ACWI
Aggregate Bonds	4.0%	± 3%	1.0%	7.0%	Barclays Capital U.S. Aggregate
Treasury Inflation Protected Securities (TIPS)	4.0%	± 3%	1.0%	7.0%	Barclays Capital U.S. Treasury: U.S. (TIPS)
U.S. High-Yield Bonds	3.0%	± 3%	0.0%	6.0%	Merrill Lynch High Yield Master
Global Bonds	4.0%	± 3%	1.0%	7.0%	Citigroup World Government
Hedge Funds	20.0%	± 5%	15.0%	25.0%	60% MSCI ACWI 40% Barclays Capital U.S. Aggregate
Real Assets/Real Estate	5.0%	± 5%	0.0%	10.0%	50% DJ/AIG Commodity Index 50% NCREIF Property Index <sup>1</sup>
Private Equity <sup>2</sup>	10.0%	± 5%	5.0%	15.0%	S&P 500 + 500 bps

1. Please note that the NCREIF Property Index is available quarterly and with a considerable time delay. Therefore, estimates will be used for each month which will then be changed to actual figures once they are released.
2. Assets that have not been committed to or called by private equity managers will be allocated to the publicly traded equity portfolio based on SVCF's strategic weights to those classes.

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## Long-Term Growth Pool

This pool has a broad target allocation of 55% equity, 20% fixed income and 25% alternative investments. It is designed for funds with a long-term spending horizon of seven or more years, and is generally appropriate for funds intended to be fully expended over the donor's lifetime.

Asset Class	Target	+/-	Min.	Max.	Benchmark
U.S. Large/Mid Cap Equity	19.0%	± 3%	16.0%	22.0%	S&P 500
U.S. Small Cap Equity	6.0%	± 2%	4.0%	8.0%	Russell 2000
International Developed Markets Equity	16.0%	± 3%	13.0%	19.0%	MSCI EAFE
International Emerging Markets Equity	6.0%	± 3%	3.0%	9.0%	MSCI Emerging Markets Free
Global Equity	8.0%	± 3%	5.0%	11.0%	MSCI ACWI
Aggregate Bonds	7.0%	± 3%	4.0%	10.0%	Barclays Capital U.S. Aggregate
Treasury Inflation Protected Securities (TIPS)	3.0%	± 3%	0.0%	6.0%	Barclays Capital U.S. Treasury: U.S. TIPS
U.S. High-Yield Bonds	4.0%	± 3%	1.0%	7.0%	Merrill Lynch High Yield Master
Global Bonds	6.0%	± 3%	3.0%	9.0%	Citigroup World Government
Hedge Funds	15.0%	± 5%	10.0%	20.0%	60% MSCI ACWI 40% Barclays Capital U.S. Aggregate
Real Assets/Real Estate	5.0%	± 5%	0.0%	10.0%	50% DJ/AIG Commodity Index 50% NCREIF Property Index <sup>1</sup>
Private Equity <sup>2</sup>	5.0%	± 5%	0.0%	10.0%	S&P 500 + 500 bps

## Social Impact Pool

This pool has a broad target allocation of 60% equity, 32% fixed income and 8% alternative investments. It is designed for funds with a long-term spending horizon of seven or more years. Investment managers integrate environmental, social and corporate governance (ESG) factors into the decision-making process when evaluating prospective investments.

Asset Class	Target	+/-	Min.	Max.	Benchmark
U.S. Large/Mid Cap Equity	24.0%	± 3%	21.0%	27.0%	S&P 500
U.S. Small Cap Equity	7.0%	± 3%	4.0%	10.0%	Russell 2000
International Developed Markets Equity	21.0%	± 3%	18.0%	24.0%	MSCI EAFE
International Emerging Markets Equity	8.0%	± 3%	5.0%	11.0%	MSCI Emerging Markets Free
Aggregate Bonds	14.0%	± 3%	11.0%	27.0%	Barclays Capital U.S. Aggregate
Treasury Inflation Protected Securities (TIPS)	5.0%	± 3%	2.0%	8.0%	Barclays Capital U.S. Treasury: U.S. TIPS
Opportunistic Credit	5.0%	± 2%	3.0%	7.0%	Citigroup Gov/Credit 1-3 Yr
Global Bonds	8.0%	± 3%	5.0%	11.0%	Citigroup World Government
Real Assets/Real Estate	3.0%	± 3%	0.0%	3.0%	50% DJ/AIG Commodity Index 50% NCREIF Property Index <sup>1</sup>
Private Equity <sup>2</sup>	5.0%	± 3%	2.0%	8.0%	S&P 500 + 500 bps

1. Please note that the NCREIF Property Index is available quarterly and with a considerable time delay. Therefore, estimates will be used for each month which will then be changed to actual figures once they are released.

2. Assets that have not been committed to or called by private equity managers will be allocated to the publicly traded equity portfolio based on SVCF's strategic weights to those classes.

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## Balanced Pool

This pool has a broad target allocation of 43% equity, 50% fixed income, and 7% alternative investments. It is designed for funds with a spending horizon of three to seven years or for funds seeking less exposure to equities and alternatives.

Asset Class	Target	+/-	Min.	Max.	Benchmark
U.S. Large/Mid Cap Equity	15.0%	± 3%	12.0%	18.0%	S&P 500
U.S. Small Cap Equity	5.0%	± 2%	3.0%	7.0%	Russell 2000
International Developed Markets Equity	14.0%	± 3%	11.0%	17.0%	MSCI EAFE
International Emerging Markets Equity	5.0%	± 3%	2.0%	8.0%	MSCI Emerging Markets Free
Global Equity	4.0%	± 3%	1.0%	7.0%	MSCI ACWI
Aggregate Bonds	24.0%	± 3%	21.0%	27.0%	Barclays Capital U.S. Aggregate
Treasury Inflation Protected Securities (TIPS)	7.0%	± 3%	4.0%	11.0%	Barclays Capital U.S. Treasury: U.S. TIPS
U.S. High-Yield Bonds	5.0%	± 3%	2.0%	8.0%	Merrill Lynch High Yield Master
Global Bonds	14.0%	± 3%	11.0%	17.0%	Citigroup World Government
Hedge Funds	7.0%	± 5%	2.0%	12.0%	60% MSCI ACWI 40% Barclays Capital U.S. Aggregate

## Short-Term Pool

This pool has a target allocation of 100% fixed-income securities. It is designed for funds with a spending horizon of one to three years or for funds seeking to avoid equities and alternatives.

Asset Class	Target	+/-	Min.	Max.	Benchmark
Short-Term Bonds	70.0%	± 5%	65.0%	75.0%	Citigroup Government/Credit 1-3 Yr
Treasury Inflation Protected Securities (TIPS)	15.0%	± 3%	12.0%	18.0%	Barclays Capital U.S. Treasury: U.S. TIPS
Global Bonds	15.0%	± 5%	10.0%	20.0%	Citigroup World Government

## Capital Preservation Pool

This pool is designed to preserve principal and provide current income and liquidity by investing in high quality, short-term financial instruments, including money market instruments and bank certificates of deposit. It is designed for funds seeking stability or for that portion of a fund that is to be distributed within one year.

Asset Class	Target	Min.	Max.	Benchmark
Money Market Securities	50.0%	50.0%	100.0%	U.S. Treasury Bills
Bank CDs	50.0%	0.0%	50.0%	U.S. Treasury Bills

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## APPENDIX B – ASSET CLASS GUIDELINES & RESTRICTIONS

SVCF has adopted the following guidelines and restrictions for each asset class as listed in **Appendix A**. Therefore, the descriptions below apply to each pool to the extent that a particular asset class is included in that pool.

Please note that the guidelines/restrictions listed below do not apply to community foundation investments in commingled vehicles as commingled vehicles are not governed by SVCF's policy but by their prospectus or offering document. However, SVCF will generally seek to use commingled vehicles that largely comply with these restrictions and the investment consultant is responsible for noting situations in which a commingled fund is not in compliance with these guidelines.

### 1. Domestic Equity (Large/Mid/Small Capitalization)

- The domestic equity portfolio will be diversified according to economic sector, industry, number of holdings and other investment characteristics. However, it is recognized that any actively managed portfolio will not be as diversified as the market. To produce overall diversification, equity managers will be selected to employ different management strategies, which together achieve the desired degree of diversification.
- Domestic equity managers are permitted to hold up to 10% of their portfolio in American Depository Receipts (“ADRs”) or foreign domiciled companies whose equity securities are traded in U.S. markets.
- No more than 7% at cost or 10% at market of a manager’s portfolio may be held in the securities of a single issuer.
- SVCF does not apply strict rules to define small, mid or large capitalization stocks. However, it is expected that the weighted average market capitalization of each managers’ portfolio will be within 25% of their primary market benchmark.
- Short selling of securities is prohibited.
- Derivative instruments such as financial futures and options may not be used without the prior approval of SVCF.
- A manager may only deviate from these guidelines with the advance permission of SVCF.

### 2. International Equity (Developed and Emerging)

- The following definitions should be used to distinguish between developed and emerging markets securities:
  - **International Developed Equity:** Listed equity securities traded on developed non-U.S. markets. Developed markets are defined as those included in MSCI’s EAFE index plus Canada.
  - **Emerging Markets Equity:** Listed equity securities traded on emerging non-U.S. markets. Emerging markets are defined as any market not included in MSCI’s EAFE index plus Canada.

- The portfolio will be diversified according to economic sector, industry, number of holdings and other investment characteristics. However, it is recognized that any actively managed portfolio will not be as diversified as the market. To produce overall diversification, equity managers will be selected to employ different management strategies, which together achieve the desired degree of diversification.
- For managers who are hired to invest in developed markets, securities within the portfolio must be held in a minimum of three countries at all times with no more than 30% of the portfolio to be held in emerging markets countries. For managers hired to invest in emerging markets, securities within the portfolio must be held in a minimum of three countries at all times.
- No more than 7% at cost or 10% at market of the portfolio may be held in the securities of a single issuer.
- Short selling of securities is prohibited.
- Currency exposure may be hedged back to the U.S. dollar. The decision to hedge is left to the manager’s discretion.

### 3. Alternative Investments

In order to enhance portfolio results, SVCF may elect to invest in alternative investment strategies such as hedge funds, real estate, real assets and private equity. These investments are made with the intention of raising portfolio returns and/or lowering total volatility. At present, all of these investments are made via limited partnerships and commingled funds. Therefore, restrictions are established by the offering documents for each investment.

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## 4. U.S. Fixed Income

- The duration of the portfolio should be within 25% of the duration of the manager's market benchmark.
- The portfolio may invest in the following classes of fixed-income securities:
  - Bonds or notes issued by the U.S. Government or a U.S. Government Agency backed by the full faith and credit of the U.S. Government
  - Mortgage-backed securities
  - Corporate bonds issued in the U.S. and denominated in U.S. dollars
  - Asset-backed securities
  - Non-U.S. bonds or notes issued by either foreign governments or corporations, subject to the limitations noted below
- Investment grade bond managers are expected to maintain an average quality rating for their portfolio that does not fall below an S&P rating of AA-. High-yield bond managers are expected to maintain an average quality rating for their portfolio that does not fall below an S&P rating of B-. For the purpose of calculating average quality ratings, securities issued or fully backed by the full faith and credit of the U.S. Government shall be considered AAA.
- For investment grade managers, up to 20% of the portfolio's duration weight may be held in below investment grade securities.
- Up to 25% of the portfolio's duration weight may be held in the securities of foreign issuers. It is expected that the preponderance of the currency exposure associated with these holdings will be hedged.
- No more than 5% at market of the portfolio may be held in the securities of a single corporate issuer. This restriction does not apply to securities issued by the U.S. Government or a U.S. Government Agency backed by the full faith and credit of the U.S. Government.
- Derivative instruments may be utilized by the manager in order to obtain more efficient exposure to a specific type of security. However, at no time may derivative instruments be used to leverage the portfolio. In addition, it is expected that a manager will have thoroughly tested the behavior of the derivative instrument under a variety of market conditions before purchasing the instrument for the portfolio.

## 5. Global Fixed Income

- The duration of the portfolio should be within 25% of the duration of the manager's market benchmark.
- The portfolio may invest in the following classes of fixed-income securities issued by U.S. or non-U.S. entities:
  - Government bonds or notes
  - Mortgage-backed securities
  - Corporate bonds issued in the U.S. and denominated in U.S. dollars
  - Asset-backed securities
- The manager is expected to maintain a weighted average quality rating for the portfolio that does not fall below an S&P rating of AA-. For the purpose of calculating average quality ratings, securities issued or fully backed by the full faith and credit of the U.S. Government shall be considered AAA.
- Up to 20% of the portfolio's duration weight may be held in below investment grade securities.
- No more than 5% at market of the portfolio may be held in the securities of a single corporate issuer.
- Derivative instruments may be utilized by the manager in order to obtain more efficient exposure to a specific type of security. However, at no time may derivative instruments be used to leverage the portfolio. In addition, it is expected that a manager will have thoroughly tested the behavior of the derivative instrument under a variety of market conditions before purchasing the instrument for the portfolio.

## 6. Cash and Equivalents

- A key objective for cash investments is to maintain price stability at all times, although this is not guaranteed.
- The weighted average maturity of the money market securities segment of the portfolio will generally be less than or equal to 90 days. CDs will be purchased using a laddered approach to maturities, which could involve the use of longer maturities, although this portfolio will be structured to maintain adequate liquidity for the pool as a whole.
- Within the money market securities segment, the portfolio will generally invest its assets in money market securities that are in the highest ratings categories for short-term instruments. Furthermore, the fund may invest in the following:
  - Obligations of the U.S. Government (including its agencies and instrumentalities)
  - Short-term corporate debt securities of domestic and foreign corporations
  - Obligations of domestic and foreign commercial banks, savings banks, and savings and loan associations
  - Commercial paper

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## APPENDIX C—HEDGE FUND PORTFOLIO GUIDELINES

The purpose of these guidelines is to define performance objectives and allow risk within the hedge fund portfolio to be monitored and controlled. These guidelines will be subject to ongoing review and modification as SVCF's strategy evolves.

### Portfolio Goals

The hedge fund portfolio seeks to earn a competitive long-term return with volatility that is below that of a traditional equity/fixed-income portfolio whose mix would be attractive for a long-time horizon investor. At this time, the hedge fund portfolio will be structured to emphasize this goal, as opposed to those that emphasize low volatility or low correlation to markets.

### Investment Objectives

The long-term objectives of the hedge fund portfolio are as follows (please note that all comparisons will be based on results that are net of fees):

- The overall objectives are, in order of importance: (1) return generation (2) moderation of portfolio volatility and (3) capital preservation.
- The primary return objective is to earn annualized returns that exceed a 60/40 market proxy where equities (60%) are measured using the MSCI All Country World Index and fixed-income (40%) is measured using the Barclays Capital Aggregate Index. This is to be measured over three- to five- year periods.
- Volatility of the hedge fund portfolio is generally expected to be no more than that of the same 60/40 market proxy per annum measured over rolling 36-month periods.

- Beta to the MSCI All Country World Index is generally expected to be no more than 0.5 measured over rolling 36 month periods.
- As a further objective, the hedge fund portfolio's results will also be compared to the HFRI Fund of Funds Index plus 1% in order to measure results relative to the aggregate hedge fund industry.

### Guidelines

1. The portfolio will have a target of 60% direct manager allocations and 40% fund of funds. Once the direct portfolio is established, these weights will not be allowed to vary by more than plus or minus 10 percentage points. If the portfolio's exposure falls outside of the permitted range at any time, it will be rebalanced no later than the next liquidity date for the managers within these segments of the portfolio.
2. The portfolio will be well diversified by manager and strategy and will initially utilize the targets and permitted ranges listed on page 2. If the portfolio's exposure falls outside of the permitted range at any time, it will be rebalanced no later than the next liquidity date for the managers within that segment of the portfolio. Furthermore, each segment of the portfolio will be compared to the index listed in the table below.

Category	Target	Min.	Max.	Benchmark
Equity Long/ Short <sup>a</sup>	50.0%	43.0%	57.0%	HFRI Equity Hedge Index
Credit and Structured Credit <sup>b</sup>	25.0%	18.0%	32.0%	HFRI Distressed/Restructuring Index
Multi-Strategy <sup>c</sup>	10.0%	5.0%	15.0%	HFRI Multi-Strategy Index
Opportunistic <sup>d</sup>	15.0%	10.0%	20.0%	50% HFRI Macro/Index 50% HFRI Event Driven Index

a. Equity Long/Short consists of global, regional and sector-focused long/short strategies.

b. Credit and Structured Credit consists of long/short strategies that span a broad array of sectors and quality with an emphasis on the fixed-income markets.

c. Multi-Strategy includes event driven, distressed, value equity and risk arbitrage strategies.

d. Opportunistic includes macro and opportunistic value with investments ranging across the capital structure and/or allocations that are primarily driven by top-down economic or market analysis.

# Statement of Investment Policy

Guidelines, cont.

3. No investment with a direct manager can represent more than 10% of the hedge fund portfolio. If a manager's weight exceeds this level, rebalancing will take place no later than the next possible liquidity date for that firm.
4. The direct managers held within the hedge fund portfolio will provide liquidity on no less than an annual basis and at least one quarter of the assets will be available on a semi-annual or more frequent basis. In addition, no more than one-third of the hedge fund assets can be locked up at any given time. SVCF will elect to exclude side-pocket investments when this option exists.
5. Market risk will be monitored on a quarterly basis by reviewing net exposure to equities and credit across the hedge fund portfolio.

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## **Board Approval**

Adopted by the board of directors July 2007  
Amended and approved December 2008  
Amended and approved June 2009  
Amended and approved December 2009  
Amended and approved December 2010  
Approved without amendment December 2011  
Amended and approved December 2012  
Amended and approved December 2013  
Amended and approved December 2014  
Amended and approved December 2015  
Amended and approved December 2016  
Amended and approved December 2017