

# SAN BRUNO

## Community Foundation

*Investment Committee*

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

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### AGENDA

#### SAN BRUNO COMMUNITY FOUNDATION

#### Special Meeting of the Investment Committee

**May 20, 2019**

**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. 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 agendaized pursuant to State Law.

**4. Approval of Minutes:** February 13, 2019, Regular Investment Committee Meeting

**5. Executive Director's Report**

**6. Conduct of Business**

- a. Receive Report from Sand Hill Global Advisors, LLC (SHGA) regarding SHGA's Investment Outlook and SBCF's Investment Portfolio Performance
- b. Adopt Resolution Recommending to the SBCF Board of Directors the Quasi-Endowment Payout Rate for Fiscal Year 2019-2020

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- c. Discuss and Provide Direction Regarding Future Cash Flow Strategies Related to Funding of Recreation and Aquatics Center Project
- d. Conduct Annual Review of SBCF's Investment Policy Statement and Investment Operating Plan

### **7. Committee Member Comments**

### **8. Adjourn**

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### MINUTES

## SAN BRUNO COMMUNITY FOUNDATION

### Special Meeting of the Investment Committee

**February 13, 2019**

**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 4:30 p.m.
- 2. Roll Call:** Committee Members Ross, Clifford, and Hayes, present. Committee Members Hedley and Perkins, excused.
- 3. Approval of Minutes:** November 27, 2018, Special Investment Committee Meeting: Committee Member Clifford moved to approve the minutes of the November 27, 2018, Special Meeting, seconded by Committee Member Hayes, passed unanimously.
- 4. Executive Director's Report**

Executive Director Hatamiya gave an update on the Foundation. First, she reported that in December the Foundation Board agreed with the Committee's recommendation to execute a new professional services agreement for investment management services with Sand Hill Global Advisors, LLC, that would mirror the previous contract but not include an end date. She said that the contract was executed in December and will take effect on March 11, 2019.

She then reported on the Foundation's recent program highlights:

- **Community Grants Fund:** The Foundation Board awarded 25 grants totaling \$300,000 in December. YouTube/Google again donated \$100,000 of the \$300,000 awarded. At the December Board meeting, nearly all grantees sent a representative and told the Board about the wonderful work they are doing in the community. Board members have been out delivering grant checks to new grantees.

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- Crestmoor Scholarship: The 2019 program launched the week of December 10, with a March 6, 2019, deadline. The Foundation will award \$120,000 in scholarships in the spring.
- Projects with the City
  - Recreation and Aquatics Center: The City is currently in the second phase of the project, the schematic design and construction documents phase. The City entered into a second contract with Group 4 Architecture for services related to this phase and for support services through what will become Phase 3, the construction phase. Consequently, the City and Foundation executed a grant agreement for about \$5.4 million. The City is also in the process of hiring a firm that will provide project management and construction management services through the duration of the project.
  - Pedestrian Safety Strategic Initiative: The Foundation received the grant report for this project and disbursed grant payments totaling \$222,985. YouTube contributed \$126,000 of that amount.
  - First Responder Effectiveness Strategic Initiative: A year ago, the Board approved a \$160,723 strategic grant to the City for three first responder projects: police mindfulness training, emergency shelter supplies, critical facilities site assessments. The San Bruno Police and Fire Chiefs will be reporting on the significant progress made on these projects at the March 6 Board meeting. Google and employees from Google and YouTube have donated approximately \$300,000 to the First Responder Initiative, and staff has been in discussion with the City about what project those funds could support – most likely a mobile command vehicle with new emergency operations center communications technology.

Ms. Hatamiya also reported that three Board members will retire from the Board at the end of this year as a result of term limits. The San Bruno City Council has the appointment authority but has asked the Foundation Board to solicit applications and provide a recommendation. The Board directed the Ad Hoc Committee on Board Development to lead this effort, and application process will be in place soon.

Ms. Hatamiya also reported that transfers from the Quasi-Endowment and Strategic Pool accounts to the Liquidity Pool are taking place as scheduled.

Finally, she reminded the Committee of its 2019 meeting schedule: May 15, August 21, and November 20. Two Committee members said they may not be able to attend the May 15 meeting, so Ms. Hatamiya said she would work on finding an alternative date.

### 5. Conduct of Business

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

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SHGA Chief Executive Officer Brian Dombkowski, Senior Wealth Manager Kristin Sun, and Senior Portfolio Manager Meghan DeGroot 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 late cycle, with a particularly volatile fourth quarter of 2018. Looking back, he said the firm viewed the volatility as a normal part of the economic cycle and not the start of a larger economic downturn. He gave a summary of the firm's current economic forecast for the first quarter of 2019, commenting on economic growth, interest rates, the employment market, corporate earnings, international developed markets, emerging markets, inflation, commodity markets, valuation, and the housing market.

Ms. DeGroot then reviewed the Foundation's Investment Dashboard for the fourth quarter of 2018, including December 31, 2018, balances of \$16,224,500 for the Quasi-Endowment, \$44,158,867 for the Strategic Pool, and \$11,130,680 for the Liquidity Pool (total of \$71,514,047 in all three accounts). She also provided an up-to-date snapshot of the portfolio as of the day before the meeting, discussed the adjustments the team made to the portfolio in the fourth quarter, and gave highlights of some of the funds in the Foundation's portfolio.

- b. Discuss Future Cash Flow Strategies Regarding Funding of Recreation and Aquatics Center Project

Based on an updated timeline of the estimated expenditures through the duration of the Recreation and Aquatics Center project, Chair Ross led a discussion regarding the Foundation's cash flow needs over the next several years and possible recommendations to the Board regarding cash flow management in light of the revised timeline. After a brief discussion, the Committee agreed to revisit this topic at its May meeting, as part of the discussion regarding the Foundation's FY2019-2020 budget and transfers from the Quasi-Endowment and Strategic pools to the Liquidity account.

**5. Public Comment:** None.

**6. Committee Member Comments:** None.

**7. Adjourn:** Chair Ross moved to adjourn the meeting at 5:33 p.m., seconded by Committee Member Clifford, approved unanimously.

Respectfully submitted for approval at the Special Investment Committee Meeting of May 20, 2019, by Investment Committee Chair Tim Ross.

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Tim Ross, Investment Committee Chair

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### Memorandum

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**DATE:** May 15, 2019

**TO:** Investment Committee, San Bruno Community Foundation

**FROM:** Leslie Hatamiya, Executive Director

**SUBJECT:** May 20, 2019, Investment Committee Regular Meeting

The Investment Committee of the San Bruno Community Foundation will hold a special quarterly meeting at 4:30 p.m. on Monday, May 20, 2019, at San Bruno City Hall, Room 101, 567 El Camino Real, San Bruno.

#### 1. Executive Director's Report

At each meeting, I will report on any follow-up items from the last Committee meeting as well as provide updates on the Foundation's programs and operations. Key items I will report on at the May 20 meeting include:

- Program highlights and updates on the Community Grants Fund, the Crestmoor Neighborhood Memorial Scholarship program, and strategic grant initiatives, including the San Bruno Recreation and Aquatics Center (RAC) project.
- Schedule of transfers from the Quasi-Endowment and Strategic Pool accounts to the Liquidity Pool account for FY2018-2019: (1) transfers to cover the Foundation's cash needs through June 30, 2019, consistent with the FY2018-2019 budget passed by the Foundation Board in June (\$319,980 from the Quasi-Endowment and \$4,043,704 from the Strategic Pool), and (2) a one-time transfer of \$10 million from the Strategic Pool in anticipation of upcoming cash needs for the RAC project. Of relevance to the discussion in Section 4 below, although the Board approved transfers totaling \$4,043,704 from the Strategic Pool to the Liquidity Pool to cover operating expenses and strategic grant cash needs in the current fiscal year, disbursements for the RAC project have been significantly lower than anticipated. As a result, I will not be requesting a final \$3 million transfer from Strategic to Liquidity this fiscal year, as the two previous transfers totaling \$1,043,704 (in addition to the two Quasi-Endowment transfers totaling \$319,980) are sufficient to cover the Foundation's cash needs for the remaining two months of FY 2018-2019.

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- A reminder of upcoming 2019 Investment Committee meetings, both at 4:30 p.m. at San Bruno City Hall: August 21 and November 20.

#### **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, CIO Brenda Vingiello, 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 second quarter of 2019, including the firm's perspective on economic growth, interest rates, employment market, corporate earnings, international market, housing market, inflation, and commodity markets.

##### **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 2019. The SHGA team will walk the Committee through the attached Investment Dashboard for March 31, 2019, 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. Resolution Recommending to the SBCF Board of Directors the Quasi-Endowment Payout Rate for Fiscal Year 2019-2020**

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

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

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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. Last June, upon recommendation from the Investment Committee, the Board amended the payout guidelines 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 year 2017-2018, the default payout rate will be 2.25%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision. Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis.

The City Attorney has advised that as amended, the Quasi-Endowment payout provision in the Investment Operating Plan does not need to be amended each year, and the Board – with guidance from the Investment Committee – can simply pass a resolution each year setting the next fiscal year's Quasi-Endowment payout rate.

For the past two years, the Committee decided to recommend – and the Board subsequently adopted – a Quasi-Endowment payout rate sufficient to meet the cash flow needs for the Crestmoor Scholarship and the Community Grants Fund in the upcoming fiscal year. For FY 2017-2018, the approved payout rate was 2.25%, resulting in a payout of \$352,921. For FY 2018-2019, the approved payout rate was 1.95%, resulting in a payout of \$319,980. I recommend that the Committee continue to follow this practice for FY 2019-2020, which is consistent with the original long-term vision for the Quasi-Endowment (to fund those two programs plus support costs on an ongoing basis) and allows for some continued growth of the Quasi-Endowment, especially while the Foundation still has the Strategic funds to help support operational expenses. Strategic funds would cover cash needs for all strategic grants plus all support costs. This option seems like a reasonable compromise position – it draws from the Quasi-Endowment but at a low rate, and it taps into the Strategic Pool for all support costs but also leaves some amount for additional strategic grantmaking.

With the assistance of Accounting Consultant Frank Bittner, I am in the process of developing the 2019-2020 operating budget. The current draft is projecting expenses of \$1.54 million. Total cash flow needs in 2019-2020 are higher, currently projected at \$5.42 million, as a result of disbursements for two RAC grants (for architectural services and project and construction



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management services) approved and recorded in FY 2018-2019. Cash flow needs for the Crestmoor Scholarships and Community Grants Fund are estimated at \$317,500. (A total of \$365,000 in Scholarships and Community Grants are expected to be paid out in 2019-2020. However, the 2017-2018 Quasi-Endowment payout included \$45,000 in Community Grants that has been carried forward and will not be paid out until 2019-2020. In addition, one 2018 Crestmoor Scholar declined the second year of his scholarship award, and \$2,500 will be carried forward to 2019-2020.)

For Quasi-Endowment payout calculation purposes, we use the quarter-ending balances on our Fidelity statements rather than those provided by SHGA (the two differ slightly based on different methods for recording transactions near the end of the quarter). The average of the past 12 quarter-ending Quasi-Endowment values (Q2 2016 to Q1 2019) is \$16,711,034. A payout rate of 1.90% would result in a Quasi-Endowment payout of \$317,510. To cover cash needs for operating expenses and strategic grants, the corresponding transfer of funds from the Strategic Pool to the Liquidity Pool (to be used for the operating budget) would be \$4,781,214.

In sum, I recommend that the Committee adopt the attached resolution recommending to the SBCF Board of Directors the Quasi-Endowment payout rate for fiscal year 2019-2020.

#### **4. Discussion Regarding Management of Strategic Pool Funds**

As discussed at previous Committee meetings, in March 2017 the Foundation Board expressed its support for the concept of the Foundation making a strategic grant to the City of San Bruno for the planning, design, and construction of a new recreation and aquatics center in an amount not to exceed \$50 million and directed the Executive Director to proceed with negotiating and proposing the terms of such grant arrangement with the City of San Bruno. With the assistance of the Ad Hoc Committee of Program Strategy Development, I concluded that the best course of action in a project this complex would be to execute separate grant agreements for each stage of the project. Thus far, the Foundation has paid out or approved the following RAC-related grants:

- RAC Grant #1 – Conceptual Design: Completed. Total of \$416,108.85 has been paid out to the City.
- RAC Grant #2 – Architectural Services: In Progress. Grant is for an amount not to exceed \$5,420,388.00, to be paid in quarterly disbursements based on the previous quarter's expenses, from May 2019 through August 2022. Thus far, SBCF has disbursed one quarterly payment of \$270,340.62.
- RAC Grant #3 – Project and Construction Management Services: In Progress. Grant is for an amount not to exceed \$1,079,000.00, to be paid in quarterly disbursements based on

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the previous quarter's expenses, from August 2019 through May 2023. No disbursements have yet been paid for this grant.

SBCF anticipates making two additional RAC-related grants in FY 2019-2020, one for approximately \$350,000 for temporary facilities, and one for approximately \$100,000 for business and operating plan consultants. Additional grants will cover the remaining tasks related to the RAC project, including construction.

The City's architectural firm, Group 4 Architecture, Research + Planning, has provided the City and the Foundation with an updated – but still tentative – timeline of the estimated expenditures for the project, which should run through at least FY 2021-2022. At the meeting, the SHGA team will present the Committee with cash flow projections through FY 2022-2023 to help guide the Committee's discussion of how best to manage funds in the Strategic Pool to meet the Foundation's cash flow needs with regard to the RAC project, other strategic grants, and its operating expenses.

The Committee first had this discussion at its May 2018 meeting and made a recommendation to the Board (which the Board followed) to transfer \$10 million from the Strategic Pool to the Liquidity Pool to protect those funds from fluctuations in the market. This \$10 million transfer was made in July 2018, was in addition to a transfer needed to cover cash flow needs in fiscal year 2018-2019, and does not appear in the FY 2018-2019 budget because it is not intended for use in 2018-2019. The \$10 million figure was based, in part, on the architect's previous (but ultimately overly optimistic) projection that cash flow needs for the RAC project would be about \$12.7 million in fiscal year 2019-2020. The transfer was consistent with the structure of the Liquidity Pool account, which can include funds to be disbursed over the next 24 months, not just the next fiscal year. The funds remain in the Liquidity Pool and, with investment income, the balance as of April 30, 2019, is about \$10.2 million.

As part of this discussion, the Committee may want to provide direction regarding the management of the Strategic Pool funds, including discussing adjustments within the asset allocation ranges for the Strategic Pool with the Sand Hill team, providing guidance to Foundation staff and the Board regarding the timing of transfers from the Strategic Pool to the Liquidity Pool to cover payment obligations for the RAC project in the development of the Foundation's annual budget, and providing guidance to the Board as it considers other grantmaking opportunities funded by the Strategic Pool. In particular, the Committee may want to discuss making any additional transfers from the Strategic Pool to the Liquidity Pool earmarked for the RAC project. Under the Investment Policy Statement and Investment Operating Plan, the Liquidity Pool can include funds to be disbursed over the next 24 months, not just the next fiscal year. Under Group 4's current timeline, the cash needs for FY 2020-2021 are more than \$19 million. We expect to receive from the City an updated and more detailed

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cash flow timeline (being prepared by Griffin Structures, the project and construction management firm the City has hired to manage the RAC project) by the end of the summer, which will provide more granular projections to guide the Committee's future consideration of this issue.

#### **5. Annual Review of SBCF's Investment Policy Statement and 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. Following the May 2017 meeting of the Investment Committee and subsequent action of the Board of Directors in June of that year, an amendment to the Quasi-Endowment payout provision in the Investment Operating Plan was executed by SHGA and the Foundation on June 7, 2017.

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 20 meeting, the Committee will review the two documents as amended, 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.

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

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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, as I did last year, I specifically looked at one primary issue related to the item above regarding management of Strategic Pool funds as a possible candidate for amendment – that is, changes to the Strategic Pool’s asset allocation in anticipation of disbursements for the RAC project.

Just like last year, I am not recommending any Strategic Pool asset allocation adjustments. 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. Moreover, 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.

In addition to this asset allocation question, 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.

#### Attachments:

1. SBCF Investment Dashboard, as of March 31, 2019
2. Resolution Recommending to the SBCF Board of Directors the Quasi-Endowment Payout Rate for Fiscal Year 2019-2020
3. San Bruno Community Foundation Investment Policy Statement
4. San Bruno Community Foundation Investment Operating Plan with Sand Hill Global Advisors
5. Amendment #1 to the San Bruno Community Foundation Investment Operating Plan with Sand Hill Global Advisors

# The San Bruno Community Foundation Investment Dashboard

As of March 31, 2019

## Current Outlook:

**Economic Environment:** Global economic growth slowed during the second half of last year and central banks stepped-up their levels of accommodation as a result. This includes the U.S. Federal Reserve which made a meaningful pivot by signaling an end to previously planned balance sheet reductions, as well as further rate hikes this year. This led to a sharp decline in mortgage rates and a brief inversion of the U.S. Treasury yield curve. Financial conditions subsequently eased globally and this appears to be leading to economic stabilization based on recently released March economic data. Equity markets around the world responded favorably and, by the end of the first quarter, had recovered the majority of the losses experienced during the fourth quarter of last year. Expectations for 2019 corporate earnings growth have fallen and are now just under 4% which should be achievable, and potentially beatable, particularly if global economic growth begins to reaccelerate. China's economy contributes one third of global economic growth and recent data suggest a stabilization is occurring which would positively impact the global economy as well as emerging market equity which we continue to find attractive based on favorable growth and valuation relative to the U.S. Despite being in the eleventh year of this economic cycle, a recession is not apparent in the near-term. We estimate that GDP growth in the U.S. will be in the 1.5-2% range which in-line with historical average levels.

**Market Environment:** Financial markets were significantly impacted by central bank actions and announcements during the quarter which led to the yield curve flattening, and briefly inverting, in the U.S. Equity markets recovered the majority of their losses and gains were broad-based across sectors and regions which is a change from previous periods when U.S. large cap technology stocks contributed the majority of gains. REITs, and other investments with attractive yields, had a strong quarter as bond yields declined. Commodities also recovered as the price of oil rebounded and as signs of global economic stabilization materialized.

**Portfolio Response:** Following a significantly equity market recovery, we reduced global equity exposure in favor of short-duration bonds which are currently yielding close to 3%. We also eliminated a tilt to the financials sector within the small and midcap equity allocation during January, following a significant rally in the group. In absolute return, we exited a position in insurance linked securities in favor of short duration bonds.

Performance		Quasi-Endowment Pool			Custom Blended		
		Benchmark	+ / -	Strategic Pool	Benchmark	+ / -	
Quarterly	Q1 2019	8.68%	8.83%	-0.15%	4.39%	4.89%	-0.50%
	Q4 2018	-8.49%	-7.44%	-1.05%	-2.17%	-1.34%	-0.83%
	Q3 2018	2.34%	2.75%	-0.41%	0.84%	0.90%	-0.06%
	Q2 2018	1.19%	1.86%	-0.67%	0.38%	0.68%	-0.30%
Calendar	1 Year	2.97%	5.46%	-2.49%	3.37%	5.14%	-1.77%
	ITD	7.10%	7.60%	-0.50%	2.98%	3.40%	-0.42%

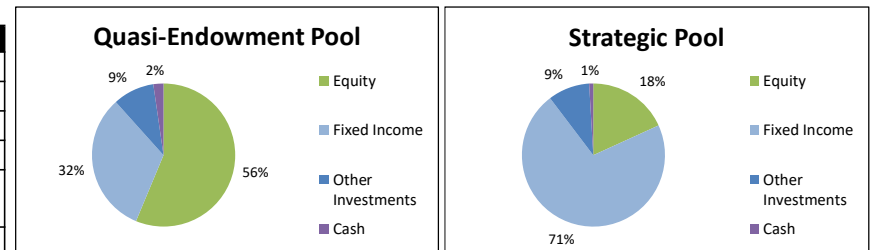
Asset Allocation	Quasi-Endowment Pool	31-Mar-19	Strategic Target	Strategic Pool	31-Mar-19	Strategic Target
Large Cap Equity	\$5,271,296	30%	30%	\$4,355,969	10%	9%
SMID Cap Equity	\$1,820,023	10%	9%	\$1,113,646	2%	3%
International/EM Equity	\$2,841,831	16%	13%	\$2,818,463	6%	4%
Fixed Income	\$5,639,223	32%	30%	\$32,513,728	71%	70%
Real Assets	\$854,287	5%	8%	\$989,644	2%	4%
Market Neutral	\$798,210	5%	8%	\$3,296,061	7%	8%
Cash	\$407,501	2%	2%	\$424,895	1%	2%
<b>Total</b>	<b>\$17,632,371</b>	<b>100%</b>	<b>100%</b>	<b>\$45,512,407</b>	<b>100%</b>	<b>100%</b>

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 Pool	Increased	Decreased	Growth/Capital Preservation
<b>Q1 2019</b>	<b>Reduced Equity Into Strength</b>		<b>63/37</b>
	Short Duration Bonds	Global Equity	
	Small Cap Equity	Regional Banks	
		Insurance Linked Securities	
<b>Q4 2018</b>	<b>Taking Advantage of Market Correction</b>		<b>65/35</b>
	Large Cap Equity	U.S. Corporate Bonds	
	EM Local Currency Debt		
<b>Q2 2018</b>	<b>Risk Reduction in Stocks &amp; Bonds</b>		<b>62/38</b>
	Short Duration Bonds	Energy Equities	
		Floating Rate Loans	

Balances	Quasi-Endowment	Strategic	Liquidity	Total
Q1 2019	\$17,632,371	\$45,735,542	\$11,151,236	<b>\$74,519,150</b>
Q4 2018	\$16,224,500	\$44,158,867	\$11,130,680	<b>\$71,514,047</b>
Q3 2018	\$17,915,777	\$45,137,066	\$11,120,166	<b>\$74,173,009</b>
Q2 2018	\$17,521,667	\$55,451,122	\$356,359	<b>\$73,329,147</b>

Illiquidity as of 3/31/2019	< 1 Yr	1-3 Yrs	> 3 Yr	Total
Quasi-Endowment Pool	0.00%	0.00%	0.00%	0.00%



**RESOLUTION NO. 2019-\_\_**

**RESOLUTION OF THE SAN BRUNO COMMUNITY FOUNDATION INVESTMENT COMMITTEE  
RECOMMENDING TO THE SBCF BOARD OF DIRECTORS THE QUASI-ENDOWMENT PAYOUT  
RATE FOR FISCAL YEAR 2019-2020**

**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**, 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.i. of the Investment Operating Plan with its investment adviser, Sand Hill Global Advisors, as amended, states, with regard to the Quasi-Endowment payout:

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 2.25%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision. Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis.

**WHEREAS**, a Quasi-Endowment payout rate of 1.90%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision, would result in a payout of \$317,510 and provide the necessary funds to cover cash flow needs for the Crestmoor Neighborhood Memorial Scholarship and the Community Grants

Fund in fiscal year 2019-2020, consistent with the original long-term vision for the Quasi-Endowment; and

**WHEREAS**, the Foundation's Board of Directors will consider the Foundation's fiscal year 2019-2020 budget, including transfers from the Quasi-Endowment to the operating budget, at its June 5, 2019, meeting.

**NOW, THEREFORE, BE IT RESOLVED** that the Investment Committee recommends that the Board of Directors approve, for fiscal year 2019-2020, a Quasi-Endowment payout rate of 1.90%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision, resulting in a payout of \$317,510, to provide the funds to cover cash flow needs for the Crestmoor Neighborhood Memorial Scholarship and the Community Grants Fund in fiscal year 2019-2020, consistent with the original long-term vision for the Quasi-Endowment.

Dated: May 20, 2019

ATTEST:

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Tim Ross, Investment Committee Chair

I, Tim Ross, Chair, do hereby certify that the foregoing Resolution No. 2019-\_\_ was duly and regularly passed and adopted by the Investment Committee of the San Bruno Community Foundation on this 20<sup>th</sup> day of May, 2019, by the following vote:

AYES:           Committee members:

NOES:           Committee members:

ABSENT:        Committee members:

# **SAN BRUNO**

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Community Foundation

## **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

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**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  
INVESTMENT OPERATING PLAN

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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

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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

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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

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- 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  
INVESTMENT OPERATING PLAN

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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.

## SAN BRUNO COMMUNITY FOUNDATION

### INVESTMENT OPERATING PLAN

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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).

SAN BRUNO COMMUNITY FOUNDATION  
INVESTMENT OPERATING PLAN

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**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

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**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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**VII. SIGNATURES**

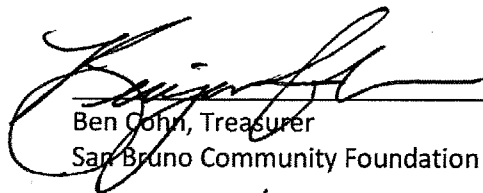
Reviewed and Accepted By:



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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**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>
<b>Equity</b>				
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%
<b>Fixed Income</b>	Barclays Capital Aggregate Index	30%	70%	0%
<b>Real Estate</b>	NAREIT Index	6%	4%	0%
<b>Commodities/Natural Resources</b>	Dow Jones UBS Commodity Index	2%	0%	0%
<b>Market Neutral</b>	Barclays 1-3 Year Aggregate Index	8%	8%	0%
<b>Cash/Cash Equivalents</b>	U.S. T-Bill 90 day Index	2%	2%	100%

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**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.

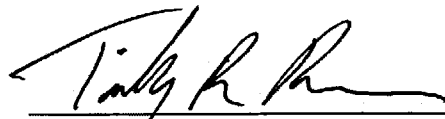
**AMENDMENT #1 TO INVESTMENT OPERATING PLAN  
OF THE SAN BRUNO COMMUNITY FOUNDATION**

1. This Amendment, which is dated June 7, 2017, modifies the Investment Operating Plan of the San Bruno Community Foundation, approved by the San Bruno Community Foundation Board of Directors on May 4, 2016, and executed by the San Bruno Community Foundation and Sand Hill Global Advisors, LLC, on May 11, 2016 (a copy of which is attached hereto for reference).
2. Section VI.1.d.i., Pool-Specific Operating Guidelines for the Quasi-Endowment Pool, is amended in its entirety to be 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 2.25%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision. Cash proceeds will be deposited in the SBCF Liquidity Pool on an as-needed basis.

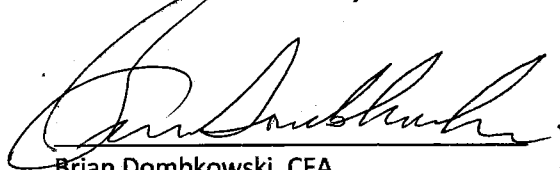
3. In all other respects, the Investment Operating Plan is affirmed.

**San Bruno Community Foundation:**

  
\_\_\_\_\_  
Tim Ross  
Treasurer

  
\_\_\_\_\_  
Leslie Hatamiya  
Executive Director

**Sand Hill Global Advisors, LLC**

  
\_\_\_\_\_  
Brian Dombkowski, CFA  
Chief Executive Officer