

# 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

#### Regular Meeting of the Investment Committee

**May 16, 2018**

**4:30 p.m.**

**Meeting Location:**

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

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

- 1. Call to Order**
- 2. Roll Call**
- 3. Approval of Minutes:** February 21, 2018, Regular Investment Committee Meeting
- 4. Executive Director's Report**
- 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
  - b. Adopt Resolution Recommending to the SBCF Board of Directors the Quasi-Endowment Payout Rate for Fiscal Year 2018-2019
  - c. Discuss and Provide Direction Regarding Management of Strategic Pool Funds
  - d. Conduct Annual Review of SBCF's Investment Policy Statement and Investment Operating Plan

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**6. 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.

**7. Committee Member Comments**

**8. Adjourn**

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## Community Foundation

*Investment Committee*

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### MINUTES

#### SAN BRUNO COMMUNITY FOUNDATION

#### Regular Meeting of the Investment Committee

**February 21, 2018**

**4:30 p.m.**

**Meeting Location:**

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

- 1. Call to Order:** Committee Chair Tim Ross called the meeting to order at 4:32 p.m.
- 2. Roll Call:** Committee Members Ross, Clifford, Hedley, and Perkins, present; Hayes excused.
- 3. Approval of Minutes:** November 15, 2017, Regular Investment Committee Meeting: Committee Member Hedley moved to approve the minutes of the November 21, 2017, Regular Meeting, seconded by Committee Member Clifford, passed unanimously.
- 4. Executive Director's Report**

Executive Director Hatamiya gave an update on the Foundation, highlighting three items. First, she reported on the changes in leadership in the City of San Bruno, including the December swearing in of Mayor Rico Medina, Vice Mayor Laura Davis, and Councilmember Michael Salazar. She reported that City Manager Connie Jackson is likely staying on until her replacement is hired later this year.

Second, she reported on the Foundation's recent program highlights:

- **Recreation and Aquatics Center:** The Foundation is funding the conceptual design phase with a \$550,000 grant, which includes an upfront payment of \$381,500. The City has hired Group 4 to do the conceptual design, which will include opportunities for community input in March and May. The conceptual design will be presented to the City Council in June.
- **Pedestrian Safety Improvements:** The Foundation executed a grant agreement with the City for \$263,952 (YouTube contributed \$126,000 of that amount). The first three sets of flashing

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beacons have been installed at Portola Elementary School and Parkside Intermediate School. Two downtown sites to be installed at the end of the San Mateo Avenue sewer and water replacement project.

- Florida Avenue Park Development: There has been a delay in construction due to faulty construction drawings. The Foundation received the grant report and will disburse the \$200,000 in the near future.
- First Responder Effectiveness Strategic Initiative: This is a new strategic grant idea to partner with the San Bruno Police and Fire Departments on important projects to improve the effectiveness of San Bruno's first responders that the City does not have the money to fund. In November 2017, the Foundation Board created ad hoc committee chaired by Vice President Frank Hedley; Treasurer Tim Ross and Secretary John McGlothlin also sit on it. In December the Committee presented three projects for funding: mindfulness training, emergency shelter supplies, and critical facilities site assessments. The Committee will present a final proposal totaling about \$161,000 for approval at the March Board meeting.
- Community Grants Fund: The Foundation received 36 applications by the September 27 deadline. The review panel evaluated the applications, and the Board approved \$300,000 in grants (\$100,000 of that amount was donated by YouTube).
- Crestmoor Neighborhood Memorial Scholarship: The 2018 program launched in early December, with a March 14, 2018, application deadline. The Board budgeted \$120,000 in scholarship disbursements.
- Music Education Strategic Initiative: Implementation of this program by the San Bruno Education Foundation and the Capuchino High School Alumni Association is proceeding on schedule. The initiative's steering committee, which is led by SBEF, is planning an annual fundraiser.

Finally, Ms. Hatamiya reported on the schedule of transfers from the Quasi-Endowment and Strategic Pool accounts to the Liquidity Pool account to cover the Foundation's cash needs through June 30, 2018, consistent with the fiscal year 2017-2018 budget passed by the Foundation Board in June (\$352,921 from the Quasi-Endowment and \$1,071,914 from the Strategic Pool). She noted that the initial transfer from the Strategic Pool to the Liquidity Pool of \$700,000 took place as scheduled in November and a transfer from the Quasi Endowment to the Liquidity Pool of \$352,921 took place in December. Another transfer from the Strategic Pool to the Liquidity Pool of \$371,914 is scheduled for April. The Foundation initiated two transfers from the Liquidity Pool to the Foundation's Wells Fargo checking account.

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### 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

SHGA Chief Executive Officer Brian Dombkowski and Senior Wealth Manager Kristin Sun represented SHGA at the meeting.

Mr. Dombkowski gave an overview of the firm's investment outlook, describing the current stage of the economic cycle as mid-to-late cycle. He gave a summary of the firm's current economic forecast for the first quarter of 2018, commenting on economic growth, interest rates, the employment market, corporate earnings, international developed markets, emerging markets, inflation, commodity markets, valuation, and the housing market. He said that as the cycle continues, the markets may see a "return to normalization" in terms of volatility, bank balance sheets, and interest rates and inflation.

Ms. Sun reviewed the Foundation's Investment Dashboard for the fourth quarter of 2017, including December 31, 2017, balances of \$17,457,761 for the Quasi-Endowment, \$56,177,533 for the Strategic Pool, and \$1,144,112 for the Liquidity Pool. The SHGA team also reviewed performance data of underlying funds in the Foundation's Quasi-Endowment, Strategic, and Liquidity pools.

**5. Public Comment:** None.

**6. Committee Member Comments:** The Committee briefly discussed the meeting schedule for the remainder of the year and anticipated topics for discussion.

**7. Adjourn:** Committee Member Perkins moved to adjourn the meeting at 5:45 p.m., seconded by Committee Member Hedley, approved unanimously.

Respectfully submitted for approval at the Regular Investment Committee Meeting of May 16, 2018, by Investment Committee Chair Tim Ross.

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Tim Ross, Investment Committee Chair

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## Community Foundation

### Memorandum

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**DATE:** May 11, 2018

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

**FROM:** Leslie Hatamiya, Executive Director

**SUBJECT:** May 16, 2018, Investment Committee Regular Meeting

The Investment Committee of the San Bruno Community Foundation will hold its regular quarterly meeting at 4:30 p.m. on Wednesday, May 16, 2018, 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 16 meeting include:

- Program highlights, including an update on the second cycle of the Community Grants Fund, the third cycle of the 2018 Crestmoor Neighborhood Memorial Scholarship program, and updates on projects with the City of San Bruno, including the recreation and aquatics center and the first responder effectiveness strategic initiative
- Schedule of transfers from the Quasi-Endowment and Strategic Pool accounts to the Liquidity Pool account to cover the Foundation's cash needs through June 30, 2018, consistent with the FY2017-2018 budget passed by the Foundation Board in June (\$352,921 from the Quasi-Endowment and \$1,071,914 from the Strategic Pool)
- A reminder of upcoming 2018 Investment Committee meetings, both at 4:30 p.m. at San Bruno City Hall: August 22 and November 14

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

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

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## Community Foundation

### Memorandum

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#### 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 2018, 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 2018. The SHGA team will walk the Committee through the attached Investment Dashboard for March 31, 2018, 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 2018-2019**

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 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%.

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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.

Last year, 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 fiscal year 2017-2018 (2.25%, resulting in a payout of \$352,921). I recommend that in 2018-2019 the Committee continue to follow this practice, 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 2018-2019 operating budget. The current draft is projecting expenses of \$5.34 million, including \$4 million for the second phase of the recreation and aquatics center project (more details about the project below). Total cash flow needs in 2018-2019 are slightly less, currently projected at \$4.97 million. Cash flow needs for the Crestmoor Scholarships and Community Grants Fund are estimated at \$320,000. (A total of \$365,000 in Scholarships and Community Grants are expected to be paid out in 2018-2019. However, the 2017-2018 Quasi-Endowment payout included \$45,000 in Community Grants that will not be paid out until 2018-2019. Therefore, the \$45,000 in 2017-2018 Quasi-Endowment payout will carry forward to 2018-2019.)

As of April 30, 2018, the Strategic Pool balance was \$55.06 million and the Quasi-Endowment balance was \$17.36 million. The average of all quarter-ending Quasi-Endowment values available from inception to today (eight quarters) is \$16,409,212. A payout rate of 1.95% would result in a Quasi-Endowment payout of \$319,980. 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 \$3,994,065.

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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 2018-2019.

#### **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 (RAC) 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. As a result, in December 2017 the Foundation and the City executed a grant agreement for the first stage of the project (conceptual design) for an amount not to exceed \$550,000. The City hired Group 4 Architecture, Research + Planning to manage the conceptual design process, which began in early 2018 and is expected to be completed by the end of June 2018. Group 4 has provided the City and the Foundation with a very preliminary timeline of the estimated expenditures of the likely remaining two stages of the project (construction documents and construction), which should run through fiscal year 2021-2022.

Using this preliminary estimate of the cash flow that will be required to fund the \$50 million RAC project, the SHGA team will present the Committee with cash flow testing analysis of the Strategic Pool.

With this analysis, the Committee will discuss 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. 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 whether the transfer from the Strategic Pool in fiscal year 2018-2019 should be greater than just the cash needs for fiscal year 2018-2019 (for example, also add the estimated cash needs for the RAC project for fiscal year 2019-2020). 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. One question for the Committee to consider is the risk of transferring funds out of the Strategic Pool too fast vs. the risk of transferring too late.

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#### **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 last year's May meeting of the Investment Committee and subsequent action of the Board of Directors in June, 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 16 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 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.

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### Memorandum

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In reviewing the two documents, 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 now that the Foundation has made an initial grant to the City for the RAC conceptual design phase and planning for the construction project is underway.

At this time, 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, 2018
2. Resolution Recommending to the SBCF Board of Directors the Quasi-Endowment Payout Rate for Fiscal Year 2018-2019
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, 2018

## Current Outlook:

**Economic Environment:** The first quarter began on a very strong note as tax policy changes and strong fourth quarter corporate earnings fueled positive revisions to 2018 corporate earnings projections. However, market volatility picked up significantly in February and March as concerns over inflationary pressures as well as a potential trade war with China prevailed. This resulted in both domestic and international developed equity markets delivering a negative return for the period while emerging market equity was positive. In spite of this disappointing performance, fundamentals remain stronger than they have been at any point in this economic cycle. As expected, the Federal Reserve raised short-term interest rates by 0.25% to a range of 1.50-1.75%. When this was combined with inflationary concerns, interest rates rose causing bonds, as well as REITs, to deliver a negative return during the period. Our outlook remains favorable this year and we project U.S. GDP growth will be in the range of 2-2.5%, however, recent tax policy changes and public spending plans have magnified growth and earnings estimates which has added uncertainty to the longer-term economic outlook. Nevertheless, leading economic indicators are continuing to suggest further economic expansion and global corporate earnings are projected to grow at a very healthy pace and this should continue to support a positive return environment for the equity market. We have already seen a trend towards a normalization of equity market volatility, interest rates and inflation, and we expect this to continue this year as investors shift their focus to global earnings and economic growth prospects in 2019 which will likely decelerate from 2018 levels.

**Market Environment:** All asset classes, with the exception of emerging market equity, declined during the period. This came as a result of concerns over rising inflation and a potential trade war with China. Bonds and REITs were down more than the broad equity market as the Federal Reserve raised rates and the yield curve steepened. A broad basket of commodities declined slightly and outperformed the broader equity and bond markets.

**Portfolio Response:** We took advantage of equity market volatility during the period and opportunistically added to an ETF that invests in global robotics companies. Following an equity market recovery, we eliminated an overweight to large cap technology stocks that had been in place for a number of years.

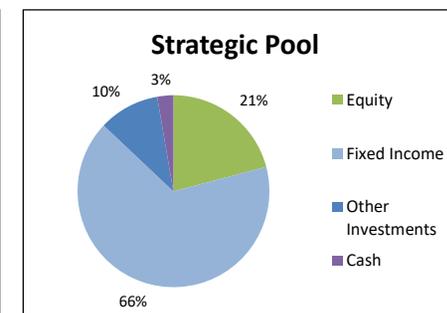
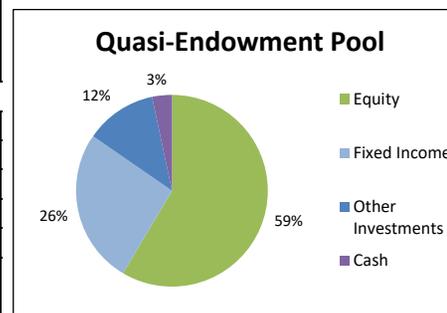
Performance	Quasi-Endowment Pool			Custom Blended			
	Benchmark	+ / -	Strategic Pool	Benchmark	+ / -		
Quarterly	Q1 2018	-0.76%	-1.17%	0.42%	-1.00%	-1.37%	0.37%
	Q4 2017	3.82%	3.27%	0.55%	1.32%	1.24%	0.08%
	Q3 2017	3.22%	3.07%	0.15%	1.53%	1.50%	0.03%
	Q2 2017	2.03%	2.45%	-0.42%	1.32%	1.72%	-0.40%
Calendar	1 Year	8.52%	7.77%	0.75%	3.18%	3.09%	0.09%
	ITD	9.42%	8.76%	0.65%	2.77%	2.46%	0.31%

Quasi-Endowment Pool Portfolio Action	Increased	Decreased	Growth/Capital Preservation
Q1 2018	Opportunistic Addition to Global Equity		64/36
	Global Stocks	Domestic Large Cap Stocks	
Q4 2017	Rebalanced Back to Target		64/36
	Fixed Income	Large Cap Equity	
Q3 2017	Shift to Attractively Valued Assets		64/36
	European Equity	Fixed Income	
	Small Cap Equity	Mid Cap Equity	

Asset Allocation	Quasi-Endowment Pool	31-Mar-18	Strategic Target	Strategic Pool	31-Mar-18	Strategic Target
Large Cap Equity	\$5,010,270	29%	30%	\$4,980,183	9%	9%
SMID Cap Equity	\$1,836,242	11%	9%	\$1,735,872	3%	3%
International/EM Equity	\$3,292,257	19%	13%	\$4,914,858	9%	4%
Fixed Income	\$4,521,588	26%	30%	\$36,779,980	66%	70%
Real Assets	\$716,533	4%	8%	\$706,927	1%	4%
Market Neutral	\$1,374,801	8%	8%	\$5,001,231	9%	8%
Cash	\$575,562	3%	2%	\$1,496,838	3%	2%
<b>Total</b>	<b>\$17,327,253</b>	<b>100%</b>	<b>100%</b>	<b>\$55,615,889</b>	<b>100%</b>	<b>100%</b>

Balances	Quasi-Endowment	Strategic	Liquidity	Total
Q1 2018	\$17,327,253	\$55,615,889	\$189,379	\$73,132,521
Q4 2017	\$17,457,761	\$56,177,533	\$1,144,112	\$74,779,405
Q3 2017	\$17,159,092	\$56,140,460	\$89,109	\$73,388,661
Q2 2017	\$16,618,083	\$55,279,359	\$88,489	\$71,985,931

Illiquidity as of 3/31/2018	< 1 Yr	1-3 Yrs	> 3 Yr	Total
Quasi-Endowment Pool	2.04%	0.00%	0.00%	2.04%



## 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.	✓

**RESOLUTION NO. 2018-\_\_**

**RESOLUTION OF THE SAN BRUNO COMMUNITY FOUNDATION INVESTMENT COMMITTEE  
RECOMMENDING TO THE SBCF BOARD OF DIRECTORS THE QUASI-ENDOWMENT PAYOUT  
RATE FOR FISCAL YEAR 2017-2018**

**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 1.95%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision, would provide the funds to cover cash flow needs for the Crestmoor Neighborhood Memorial Scholarship and the Community Grants Fund in fiscal year 2018-2019, 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 2018-2019 budget, including transfers from the Quasi-Endowment to the operating budget, at its June 6, 2018, meeting.

**NOW, THEREFORE, BE IT RESOLVED** that the Investment Committee recommends that the Board of Directors approve, for fiscal year 2018-2019, a Quasi-Endowment payout rate of 1.95%, multiplied by the simple average of all quarter-ending Quasi-Endowment values available at the time of the annual payout decision, to provide the funds to cover cash flow needs for the Crestmoor Neighborhood Memorial Scholarship and the Community Grants Fund in fiscal year 2018-2019, consistent with the original long-term vision for the Quasi-Endowment.

Dated: May 16, 2018

ATTEST:

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Tim Ross, Investment Committee Chair

I, Tim Ross, Chair, do hereby certify that the foregoing Resolution No. 2018-\_\_ was duly and regularly passed and adopted by the Investment Committee of the San Bruno Community Foundation on this 16<sup>th</sup> day of May, 2018, 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)

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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  
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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.

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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.

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**1. Individual Equity Securities in the Direct Account:**

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

**2. Individual Fixed Income Securities in Direct Accounts:**

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

**3. Commingled Funds, Mutual Funds and Index Funds:**

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

**4. Other Investments:**

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

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**5. Cash and Cash Equivalents:**

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

**6. Investment Procedures:**

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

**IV. ASSET ALLOCATION**

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

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**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.

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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**

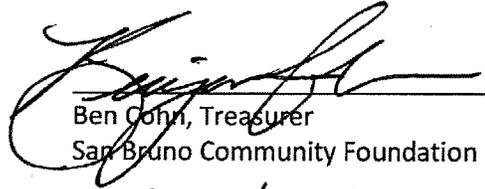
Reviewed and Accepted By:



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%

SAN BRUNO COMMUNITY FOUNDATION  
INVESTMENT OPERATING PLAN

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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:**

  
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Tim Ross  
Treasurer

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

**Sand Hill Global Advisors, LLC**

  
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Brian Dombkowski, CFA  
Chief Executive Officer