

300 INVESTMENT POLICY STATEMENT

300.2 Investment Policy

Investment Policy Statement

For

Cupertino Rotary Endowment Fund Charitable Giving Fund

**Adopted
December 21, 2016**

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EXECUTIVE SUMMARY

Type of Plan:	Endowment
Current Assets:	\$335,459 (as of 9/30/16)
Time Horizon:	5 Years or less
Expected Return:	2% - 3%
Risk Tolerance:	Very Limited
Spending Policy:	* See Spending Policy Section

Asset Allocation:	<u>Lower Limit</u>	<u>Strategic Allocation</u>
Fixed income	100.0%	100.0%
Short-term	\$200K	
Intermediate-term	Amount in fund in excess of \$200K (presently \$135,459 as of 9/30/16)	

Depending on liquidity needs, there may be cash or cash equivalents in the portfolio for short periods of time.

Evaluation Benchmark: Total return to exceed the performance of a policy index based upon the strategic asset allocation of the fund to cash returns and short-term and intermediate-term bond classes. Specifically, the policy index will be a weighted index comprised of each of the above asset classes and their associated strategic allocation.

Statement of Investment Policy, Objectives, and Guidelines Cupertino Rotary Endowment Foundation

SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the Cupertino Rotary Endowment Foundation Fund (CREF) as it relates to the Charitable Giving Fund being managed by Morgan Stanley.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Board of Directors of the Cupertino Rotary Endowment Foundation in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DELEGATION OF AUTHORITY

The Board of Directors of the Cupertino Rotary Endowment Foundation is a fiduciary, and is responsible for directing and monitoring the investment management of Fund assets. As such, the Board of Directors is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. **Investment Management Consultant.** The consultant may assist the Board of Directors in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance, and other task as deemed appropriate.
2. **Investment Manager.** The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.
3. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of the securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.
4. **Co-Trustee.** The Board of Directors may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-trustee will assume fiduciary responsibility for the administrations of Fund assets.
5. **Additional specialist** such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Board of Directors to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

DEFINITIONS

1. "Fund" shall mean the Cupertino Rotary Endowment Foundation Fund.
2. "Investment Committee" shall refer to the governing board established to administer the Fund as specified by applicable ordinance.
3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority of control over management, disposition or administration of the Fund assets.

4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investment of all or part of the Fund assets.
5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, management search, and performance monitoring.
6. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to met. The investment horizon for this Fund is 5 years or less.

ASSIGNMENT OF RESPONSIBILITY

RESPONSIBILITY OF THE INVESTMENT MANAGER(S)

Each Investment Manager will have full discretion to make all investment decisions for assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factor which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Communicating any qualitative change to investment management organization: Examples include any changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. It is expected that all communication and the aggregation of data from Investment Managers will be channeled through the Investment Consultant to the Board of Directors.

RESPONSIBILITY OF THE INVESTMENT CONSULTANT(S)

The Investment Consultant's role is that of a non-discretionary advisor to the Board of Directors of the Cupertino Rotary Endowment Foundation. Investment advice concerning

the investment management of Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Investment Committee.
3. Providing "due diligence", or research, on the Investment Manager(s).
4. Monitoring the performance of the Investment Manager(s) to provide the Board of Directors with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Investment Committee.
6. Regularly review Investment managers regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve desired investment results.

Morgan Stanley acts as CREF's Investment Consultant.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the beneficiaries of the Fund.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses, unless under circumstances it is clearly prudent not to do so.
4. The Board of Directors may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

INVESTMENT MANAGEMENT POLICY

1. **Preservation of Capital** – Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur. The risk of equities is not deemed appropriate for these funds because of the short-term nature of these funds.
2. **Risk Aversion** – Understanding that risk is present in all types of securities and investment styles, the Board of Directors recognizes that some limited risk is necessary to produce short-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. **Adherence to Investment Discipline** – Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

GOAL OF CHARITABLE GIVING FUND

These funds are all short-term (five years or less) and are in many cases funds that have been allocated to project(s), but not yet spent. The goal is to get a 2% - 3% return with these funds over the short-term, while maintaining liquidity and safety of principal. The Endowment's specific investment objectives will be established later in this document.

SPENDING POLICY

Spending needs of these funds is unpredictable.

The Board of Directors will communicate annually, or more often as needed, with the Investment consultant as to expected spending and liquidity requirements.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Cupertino Rotary Endowment Foundation is to emphasize liquidity and capital preservation.

Specifically, the primary objective in the investment management for Fund assets shall be:

Short-Term Income - To emphasize short-term income while taking limited risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal of the aggregate Fund assets to exceed:

A rate of return of 2% - 3% per year;

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Board of Directors that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio which is consistent with the risk, goals and benchmarks defined in this document.

DEFINITION OF RISK

The Board of Directors realizes that there are many ways to define risk. Risk may be defined in terms of how much the return on an asset or portfolio is likely to vary over time, or the chance the investor will suffer a loss. The Board is interested in greatly minimizing risk to principal and realizes by doing so it will receive limited return. Income is the primary concern with very limited risk to principal. Accordingly, the Board will take a very conservative investment approach.

LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Board of Directors will periodically provide

investment counsel with an estimate of expected net cash flow. The Board of Directors will notify the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

MARKETABILITY OF ASSETS

The Board of Directors requires that all of Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

INVESTMENT GUIDELINES

ALLOWABLE ASSETS

1. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - STIF Funds
 - Commercial Paper
 - Banker's Acceptances
 - Repurchase Agreements
 - Certificate of Deposit
2. Fixed Income Securities
 - U.S. Government and Agency Securities
 - Corporate Notes and Bonds
 - Mortgage Backed Bonds
 - Fixed Income Securities of Foreign Governments and Corporations
3. Mutual Funds
 - Mutual Funds which invest in securities as allowed in this statement
4. Other Assets
 - GIC's

DERIVATIVE INVESTMENTS

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based in the cash flows and price movements of other underlying

securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs, (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Board of Directors believes that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the Board of Directors will take a conservative posture on derivative securities. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. **Unless a specific type of derivative security is allowed in this document, the Investment Manager(s) must seek permission from the Board of Directors to include derivative investments in the Fund's portfolio. The Investment Manager(s) must present detailed information as to the expected return and risk characteristics of such investment vehicles.**

PROHIBITED ASSETS

Prohibited assets include, but are not limited to the following:

1. Commodities and Futures Contracts
2. Private Placements
3. Options
4. Limited Partnerships
5. Venture-Capital Investments
6. Real Estate Properties
7. Interest-only (IO), Principal-Only (PO), and Residual Tranche CMOs
8. Equities

PROHIBITED TRANSACTIONS

Prohibited transactions include, but are not limited to:

1. Short Selling
2. Margin Transactions

ASSET ALLOCATION GUIDELINES

Investment management of the assets of Cupertino Rotary Endowment Foundation shall be in accordance with the following asset allocation guidelines:

Please see asset allocation table on page 3.

The Board of Directors may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset

allocation guidelines established in this statement. Such investment managers will receive written direction from the Board of Directors regarding specific objectives and guidelines.

1. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Investment Consultant will be expected to have the Investment Manager(s) bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Board of Directors expects that the investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Investment Committee.

DIVERSIFICATION FOR INVESTMENT MANAGERS

The Board of Directors does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 20% of the total fund, and no more than 30% of the total fund should be invested in any one industry. The total allocation to treasury bonds and notes may represent up to 100% of the Fund's aggregate bond position.

GUIDELINES FOR FIXED INCOME INVESTMENT AND CASH EQUIVALENTS

1. Fund assets may be invested only in investment grade bond rated BBB (or equivalent) or better, with the exception that up to 15% of the Fixed Income portion of Fund assets can be invested in a managed high-yield mutual fund.
2. Fixed income maturity restrictions are as follows:
 - Maximum maturity for any single security is 15 years.
 - Weighted average portfolio maturity may not exceed 15 years.
3. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

SELECTION OF INVESTMENT MANAGERS

The Investment Committee's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board of Directors requires that each investment manager provide, in writing, acknowledgement of fiduciary responsibility to the Cupertino Rotary Endowment Foundation.

PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Board of Directors for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board of Directors intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Board of Directors plans to review investment policy at least annually.

This statement of investment policy is adopted on December, 21 2016 by the Board of Directors of Cupertino Rotary Endowment Foundation whose signatures appear below.



Charles P. H.




















