Napa Valley College Foundation
Investment Policy

1. INTRODUCTION

This document is published in order that:

a. The Board of Directors ("Directors"), the Investment & Finance Committee ("Committee"), any appointed Investment Consultant, any appointed Investment Manager, and potential donors will understand the goals and investment policy of the Napa Valley College Foundation ("Fund").
b. Any Investment Consultant will have guidance regarding the execution of his/her duties on behalf of the Foundation.
c. The Investment & Finance Committee and any Investment Consultant will have a basis for evaluating an Investment Manager's performance with regard to management of Fund assets.

2. INVESTMENT & FINANCE COMMITTEE and INVESTMENT CONSULTANT RESPONSIBILITY

The Directors have delegated to the Committee the responsibilities of managing the investment process in accordance with the guidelines of the California Uniform Prudent Management of Institutional Funds Act (UPMIFA), and selecting and evaluating the performance of any Investment Consultant and Manager employed to manage assets of the Fund. The Investment Consultant will:

a. assist the Committee to accomplish the objectives described in this statement, and
b. monitor the performance and investment process of the Investment Manager(s).

The Investment Managers will be continually evaluated by the Investment Consultant to ensure prudent management of the funds and compliance with this statement.

3. INVESTMENT MANAGEMENT

The Committee will retain the services of one or more Investment Managers who possess the necessary specialized research facilities and skilled personnel to meet the investment objectives and guidelines of this statement. The Committee requires any Investment Manager so retained to be registered under the Investment Advisors Act of 1940.

4. STANDARD OF CONDUCT IN MANAGING AND INVESTING INSTITUTIONAL FUND

The Committee will follow the UPMIFA guidelines for managing and investing the Fund, which include:

(a) Subject to the intent of a donor expressed in a gift instrument, an institution, in managing and investing an institutional fund, shall consider the charitable purposes of the institution and the purposes of the institutional fund.

(b) In addition to complying with the duty of loyalty imposed by law other than this [act], each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

(c) In managing and investing an institutional fund, an institution:

(1) may incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution; and

(2) shall make a reasonable effort to verify facts relevant to the management and investment of the fund.

(d) An institution may pool two or more institutional funds for purposes of management and investment.

(e) Except as otherwise provided by a gift instrument, the following rules apply:

(1) In managing and investing an institutional fund, the following factors, if relevant, must be considered:

(A) general economic conditions;

(B) the possible effect of inflation or deflation;

(C) the expected tax consequences, if any, of investment decisions or strategies;

(D) the role that each investment or course of action plays within the overall investment portfolio of the fund;

(E) the expected total return from income and the appreciation of investments;

(F) other resources of the institution;

(G) the needs of the institution and the fund to make distributions and to preserve capital; and

(H) an asset's special relationship or special value, if any, to the charitable purposes of the institution.

(2) Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the institutional fund's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.

(3) Except as otherwise provided by law other than this [act], an institution may invest in any kind of property or type of investment consistent with this section.

(4) An institution shall diversify the investments of an institutional fund unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.

(5) Within a reasonable time after receiving property, an institution shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the institutional fund into compliance with the purposes, terms, and distribution requirements of the institution as necessary to meet other circumstances of the institution and the requirements of this [act].

(6) A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds.

5. LONG-RANGE GOALS

The primary goal of the Fund is to provide a regular and reliable source of funds for the Foundation. In order to achieve this goal, the Fund's total return (target) should exceed the total of:

a. the annual distribution rate;
b. a minimum average annual growth rate of the three-year trailing Consumer Price Index and;
c. the Fund's operating expenses as determined necessary from year to year by the Board of Directors, to the extent permitted by law.

The Committee has adopted a long-term investment horizon. Therefore, the investment strategy of the Fund is to emphasize "Total Return," that is, the aggregate return from capital appreciation, dividend and interest income, net of investment fees.

6. SPENDING POLICY

In each fiscal year of the Fund (which begins July 1) the Committee shall distribute to the Foundation, for disbursement, an amount equal to the annual distribution rate of the fair market values of each of the individual Endowment Fund's assets. These assets will be valued after the close of the domestic stock exchanges on December 31st of that fiscal year. No further disbursements shall be made from individual funds without specific authority of the Directors. Such disbursements will take place in the last quarter of that fiscal year and in the immediately following first quarter of the following fiscal year.

Funds that have not yet reached permanent status (currently a total of $10,000) in contributions within a 5 year period will have no distribution made. Such funds will be included in the annual distribution at the first such distribution occurring 12 calendar months or more after they have reached permanent status. A scholarship may be awarded in the academic year a fund is established, only if the donor(s) augments the account by an additional amount that is specified for the scholarship award. If minimum funding ($10,000 or more) is not accomplished within five years after the initial contribution, all accumulated contributions will be placed in a pooled endowed scholarship fund.

UPMIFA sets forth rules regulating how an endowment fund is spent. In making a determination to appropriate or accumulate, the board must act in good faith, apply the prudent person standard, and must consider, if relevant:

- The duration and preservation of the endowment fund
- The purpose of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policy of the institution

It is further understood that some portion of income from all funds may be used to pay commissions, investment fees, and administration costs of the Foundation's funds as determined necessary from year to year by the Board of Directors, to the extent permitted by law.

7. TYPES OF ASSETS

In order to provide any Investment Manager(s) the freedom to allocate invested assets in areas appropriate to meet the objectives of the Fund, the following asset classes are expressly approved for investment:

- Certificates of Deposit
- Corporate Debt Securities
- Mutual Funds including Exchange Traded Funds (ETF's)
- American Depository Receipts of Foreign Securities
- U.S. Government & Agency Securities
- Money Market Funds
- Common Stocks
- Convertible Securities
- Commercial Paper
- Preferred Stocks
- Asset Backed Securities
- Commodities
- Futures

8. ASSET ALLOCATION GUIDELINES

Asset allocation is the responsibility of the Committee with the assistance of the Investment Consultant. Asset allocation balances the risk, return and correlation characteristics of different asset classes in an overall investment structure to manage risk and attempt to achieve the total return target set for the Fund. Each asset class has different volatility characteristics and is given different weights in the asset allocation model. The asset allocation ranges and targets shall be stated as percentages of the Fund's total assets. The Committee will review the Fund's overall asset allocation on a quarterly basis. Contributions to, or distributions from, the Fund will be managed in a way to assist the Committee in maintaining its asset allocation guidelines.

No one equity manager will have an allocation of more than 20% of the Fund.

The Committee has currently adopted the asset allocation as shown in the attached Exhibit A, which may be modified from time to time. Changes to the target allocation within the stated ranges will be noted in the minutes of the regular Investment & Finance Committee meetings, as well as in a revised Exhibit A.

9. FIXED INCOME INVESTMENT MANAGER OBJECTIVES

The investment objective for the fixed income portfolio is to achieve a total return comparable to or in excess of the Barclay's Intermediate Government/Corporate Bond Index, net of fees, over a trailing five-year period, on a risk-adjusted basis. Primary emphasis is capital preservation, moderate capital appreciation and income. The Committee recognizes that the capital markets are unpredictable and that any investment posture could result in periods where the Fund's assets decline in value.

In addition to performance, the risk or volatility of the Fund will also be monitored. A variety of measurement tools will be used to evaluate risk such as, but not limited to, Duration, Standard Deviation, Capture Ratio, etc.

Diversification – Investments in bonds should be diversified in a way to minimize risk of the total portfolio. The guidelines for diversification shall be as follows:

a. The portfolio's average maturity shall not exceed 15 years and the total portfolio duration should not exceed 20% greater than the duration of the Barclay's Intermediate Government Corporate Index.
b. Corporate, mortgage-backed, asset-backed and/or any non-US Government or Agency securities are limited to 5% maximum positions at par.
c. Exotic fixed income securities and derivative instruments are not to be used.
d. Corporate obligations must have a "BBB Investment Grade" or better rating by Standard & Poor's or a similar rating agency.
e. The fixed income Investment Manager is expected to maintain a fully invested portfolio with cash commitments being minimal and transitory in nature.

10. EQUITY INVESTMENT MANAGER OBJECTIVES

The primary investment objective for the equity portfolio is to seek capital appreciation with secondary consideration to dividend income. The goal of each equity manager is to achieve a total return comparable to or in excess of the appropriate equity benchmark index, net of fees, over a trailing five-year period, on a risk-adjusted basis. The Committee recognizes that the capital markets are unpredictable and that any investment posture could result in periods where the Fund's assets decline in value. The equity investment managers are expected to meet their objectives with a level of risk which is consistent with the risk associated with their appropriate "style benchmark." The methodology to evaluate risk will include a variety of measurement tools such as, but not limited to, Standard Deviation & Capture Ratio.

Diversification – Investments in stock should be diversified in a way to minimize the risk of the total portfolio. The guidelines for diversification by each manager shall be as follows:

a. Equity investments need not represent a cross section of the economy. However, investments should be diversified in ten industries or more.
b. Not more than 5% of the total portfolio should be invested in any one company at cost.
c. Investment Managers may hold reserves of either cash equivalents or bonds (including convertible issues) but with the understanding that their performance will still be measured against their appropriate equity benchmark index.

11. MONITORING

On a quarterly basis the Committee will monitor and evaluate the performance of the Fund in relation to the stated investment objectives.

The following indices may be used in the evaluation by the Committee:

a. Consumer Price Index
b. 90-Day Treasury Bill Rates
c. Barclay's Brothers Intermediate Government/Corporate Bond Index
d. Standard and Poor's 500 Stock Index
e. MSCI EAFE Index

f. The appropriate “Style” benchmark matching the Investment Manager’s investment strategy.
g. A hybrid of the above indices, so-constituted as to reasonably reflect the asset allocation utilized by any Investment Manager.

The Committee recognizes that performance for an interval as short as one year or less is not a fair basis for the evaluation of invested assets. Nevertheless the Committee reserves the right to discharge any Investment Manager at any time.

12. REVIEW MEETING

The Committee will meet quarterly with the Investment Consultant to:

a. Review asset allocation and, if necessary, rebalance to target allocations,
b. Review the current and anticipated economic environment and its effect on the fund’s assets,
c. Discuss any shifts in strategy which may be recommended by the Investment Consultant or any member of the Committee,
d. Review the performance of the portfolios with respect to the investment objectives and policy,
e. Discuss anticipated additions or withdrawals from the fund, and
f. Review this Investment Policy Statement.

13. CONCLUSION

This Investment Policy is designed to assist the Board of Directors, the Investment & Finance Committee, any Investment Consultant and any Investment Manager. This Statement is intended to be sufficiently specific to be meaningful, but flexible enough to be practical. It should not be considered a legal document or contractual obligation.

Asset Allocation

Exhibit A

	Fixed Income	US Stocks	International Stocks	Total
Target%	27.50%	51.50%	21.00%	100%
Range %	25-35%	45-55%	15-25%	