THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

# Statement of Investment Policy

**Updated May 12, 2020**

## Introduction

The Investment Policy Statement ("IPS") of the Catholic Community Foundation of Santa Clara ("the Foundation"), broadly describes the investment objectives and investment restrictions of the Foundation, and defines the supervisory responsibilities of the Investment Committee ("Committee"), as well as the role of the Investment Advisor (the "Investment Advisor" or "Advisor").

The Foundation manages various pools of capital. Each pool has different goals and objectives guiding the decisions related to portfolio construction and the appropriate risk level for each pool. Assets outside of these pools are also subject to the Committee's oversight on matters including, but not limited to, investment restrictions, risk decisions, and asset allocation policies.

The Foundation's investment guiding principles include:

- Embracing investment strategies that take advantage of the long-term time horizon of the Foundation, such as:
  - Capturing inefficiencies in markets that are less institutionalized, e.g. Emerging Markets.
  - Capturing illiquidity premiums to the extent that illiquidity is appropriate for the pools.
  - Judiciously spending on 3rd party managers where outperformance has a reasonable chance of succeeding, and being cost conscious elsewhere, e.g. large capitalization developed market equities.
- Maximizing the benefits of diversification across geographies, asset classes, 3rd party managers and vintages.
- Allocating sufficient risk (typically in the form of equity or equity-like assets) to achieve a sustainable rate of return for the pools, while maintaining enough flexibility to fund activities as needed and to rebalance portfolios during market distress.
- Generally taking a cautious, "steady hand" approach to investing and positioning rather than reacting to near-term news events or other "noise" in the markets.

Pragmatically, these investing principles translate to the following portfolio construction policies:

- Portfolios based on strategic, long-term asset allocation targets that exploit well-known risk and return characteristics of the underlying assets.
- Portfolios that are monitored and regularly rebalanced to long-term asset allocation targets in order to maintain the expected risk and return characteristics implied by the strategic asset allocation. These targets and associated ranges are illustrated in Appendix A.
- Portfolios that seek to maximize risk-adjusted return, rather than take "bets" on near-term events. Market timing and excessive deviation from strategic targets are risks that will generally be avoided.
- The ability to occasionally respond to "fat pitches" through measured tilts in the portfolios that seek to improve returns without increasing risk significantly.

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# Investment Committee Responsibilities

The Investment Committee has responsibility for recommending the establishment and modification of all elements of this Policy, including the asset allocation strategy for each pool, to the Foundation Board (the "Board"). The Investment Committee, the Foundation Staff (the "Staff"), the Advisor, and underlying Investment Managers (the "Managers") are charged with implementing this policy.

## THE INVESTMENT COMMITTEE IS RESPONSIBLE FOR:

- Selecting and supervising the Advisor, including assessing whether the Advisor is meeting its responsibilities as outlined below
- Setting the risk targets for each pool and evaluating on an ongoing basis whether the risk/return posture is appropriate to achieve the pool's objectives.
- Reviewing the performance of each pool versus relevant reference portfolios.
- Ensuring that investments are generally aligned with the Foundation's values and philosophy.
- Reviewing and changing guidelines for each pool as appropriate.

## THE STAFF IS RESPONSIBLE FOR:

Assisting the Committee and the Advisor with all components of this Policy.

## THE ADVISOR IS RESPONSIBLE FOR:

- Assisting Staff and the Committee with their general responsibilities.
- Preparing quarterly investment reports for the Committee's review that contain information necessary for the Committee to exercise its supervisory responsibilities.
- Monitoring this policy and recommending changes as needed.
- Monitoring the asset allocation and recommending changes as needed.
- Monitoring Manager performance, ownership structure, and investment personnel, and recommending changes as needed.
- Acting in accordance with "prudent man" principles with respect to the management of the Foundation's assets.
- Immediately reporting (in writing) any violations of the guidelines and restrictions as set forth in this Policy.
- Immediately reporting any findings against the firm or its principals, either by the SEC or any other regulatory authority. In addition, any material lawsuits brought against the firm or its principals should be reported to the Foundation.
- Preparing quarterly written statements, including actions taken in the pools.
- Attending meetings with the Committee and Staff as needed.
- Immediately communicating all pertinent changes in the Advisor's firm to the Foundation. These changes include, but are not limited to:
    - Changes in personnel involved in the Foundation's relationship.
    - Changes in Advisor's ownership.
    - Changes in senior investment professionals' responsibilities.
    - Changes in Advisor's investment style.

# Endowment Spending Policy

The Foundation is a permanent institution and has adopted long-term policies to increase the likelihood of achieving the investment objectives listed in the Introduction to this document. These policies begin with the Spending Policy. This policy relates to the permanent endowments managed by the Foundation. The spending/granting rate will be set each year by the Foundation but will fall within a range of 3-5% of the rolling average (up to sixteen-qtrs.) value of the Portfolio. As needs arise, the amount drawn on an annual basis may deviate from this target range at the recommendation of the Finance Committee and with approval of the Board.

# Investment Philosophy

As a long-term investor, the following are significant factors in the prudent allocation of the Foundation's assets:

## Factors Considered in Managing the Assets (UPMIFA Required)

- General economic conditions.
- The possible effect of inflation or deflation.
- The expected tax consequences, if any, of investment decisions or strategies.
- The role that each investment or course of action plays within the overall investment portfolio of the fund.
- The expected total return from income and the appreciation of investments.
- Other resources of the institution.
- The need of the institution and the fund to make distributions and preserve capital.
- An asset's special relationship or special value, if any, to the institution.

# Social Policy

The Foundation embraces the values of the Catholic Church and believes that the Portfolio should be invested in accordance with the Catholic Values as outlined by the United States Conference of Catholic Bishops (USCCB – November 12, 2003). As a Catholic organization, the Foundation draws the values, directions and criteria which guide its financial choices from the Gospel, universal church teaching, and Conference Statements. In order to function effectively and to carry out its mission, the Foundation depends on a reasonable return on its investments and is required to operate in a fiscally sound, responsible, and accountable manner. The combination of religious mandate and fiscal responsibilities suggests the need for a clear and comprehensive set of policies to guide the investments.

- Companies should be avoided if they have material exposure to activities that do not support Catholic Values. While USCCB does not quantitatively define "material exposure," the Foundation aims to restrict investments in companies that have more than 10% of total revenue from activities that include abortion, contraceptives, embryonic stem cell/human cloning, weapons production or development, abusive labor practices, and pornography. However, in no case will the revenue cap exceed 30%.

- Investments that support Catholic Values and corporate responsibility should be encouraged.

- These restrictions are to be considered across the entire Portfolio. Investments contrary to these Catholic Values as outlined by the USCCB guidelines are prohibited in the equity and fixed income asset classes. Given the unique characteristics of investments in the "alternatives" asset classes, adherence to the USCCB guidelines is encouraged but not strictly required.

o While the Committee and the Advisor will make every effort to abide by the above guidelines, there may be situations where a violation of the guidelines could occur. Upon discovery of a violation, it is the responsibility of the Advisor to inform the Committee of such violations within five business days. The Advisor should recommend a plan for remedying the violation within 14 business days and seek to remedy the violation within two quarters. Under certain circumstances the Committee may elect to waive compliance with the Policy for a limited or indefinite time period, should the Committee deem it reasonable to do so.

## Impact Investing

Beyond screening out investments for restrictions, the Foundation seeks to pursue effective and innovative strategies to promote positive change across the financial spectrum – from philanthropy to investing.

# Investment Restrictions

It is expected that many of the Foundation's investments will be made through separately managed accounts (SMA), commingled vehicles, ETFs, or mutual funds. Concentration limits are generally established across all portfolios and sub-portfolios to avoid undue concentrations of risk. Furthermore, portfolios will be built to take advantage of diversification across asset classes, economic sectors, industries, and other investment characteristics.

## DOMESTIC EQUITY

Domestic large-cap exposure will primarily be sourced from low-cost implementation providers (often in SMAs) who can enact tilts or defensive moves if instructed to do so, but otherwise will seek to mimic the performance of the Russell 1000 index. Small cap exposure will primarily be a mix of active managers, private equity and real assets.

## INTERNATIONAL EQUITY

The following definitions may be used to distinguish between developed and emerging international securities.

**International Developed Equity**: Listed equity securities traded in developed non-U.S. markets. Developed markets are defined as those included in Morgan Stanley's EAFE index. International large-cap exposure will primarily be sourced from low-cost implementation providers (often in SMAs) who can enact tilts or defensive moves if instructed to do so, but otherwise will seek to mimic the performance of the EAFE index.

**Emerging Markets Equity**: Listed equity securities traded in emerging non-U.S. markets. Emerging markets are defined as any non-US market that is not included in Morgan Stanley's EAFE index plus Canada. Emerging market exposure will primarily be sourced through a Jordan Park designed commingled pool, which is an actively managed commingled pool that seeks to outperform the MSCI Emerging Markets index, doing so at a cost that is competitive with ETFs.

## DOMESTIC FIXED INCOME (AGGREGATE, HIGH YIELD, AND TREASURYS)

- The duration of the portfolio should be within 25% and 150% of the duration of the US Aggregate bond index
- Managers are permitted to invest across a wide range of fixed income assets, typically denominated in US dollars:
    - o Bonds or notes issued by the U.S. Government or a U.S. Government Agency backed by the full faith and credit of the U.S. Government.
    - o Mortgage-backed securities.
    - o Corporate bonds or senior loans.
    - o Asset-backed securities.

### GLOBAL FIXED INCOME

- The duration of the portfolio should be within 25% and 150% of the duration of the Global aggregate bond index
- Managers are permitted to invest across a wide range of fixed income assets, typically:
  - Bonds or notes issued by a Government Agency backed by the full faith and credit of the national government.
  - Mortgage-backed securities.
  - Corporate bonds or senior loans.
  - Asset-backed securities.
- Managers may hedge currency exposure, although it is expected that the portfolio will frequently be un-hedged.

### ALTERNATIVE INVESTMENTS

In order to enhance portfolio results, the Foundation may elect to invest in alternative investment strategies, such as private equity, real assets, and hedge funds. These investments are made with the intention of raising portfolio returns and/or lowering total volatility. In most cases, these investments will be implemented via limited partnerships. Therefore, restrictions are established by the offering documents for each partnership.

All investments in the alternative area will have the ability to utilize leverage, albeit very different forms of leverage. Depending on the type of leverage and the type of investment made with that leverage, the generation of Unrelated Business Taxable Income (UBTI) is a possibility. Each investment firm utilized in the portfolio must fully understand that the generation of UBTI is not a desired element of their respective investment strategy.

## Performance Objectives

In order to achieve the objectives stated in the introduction to this policy, the endowment funds must earn a long-term rate of return that is at least equivalent the Consumer Price Index plus the spending rate. Given that this benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated over extended time horizons of ten to twenty years.

In order to evaluate the performance of its investments over shorter time periods, the Foundation has also adopted a market-based reference portfolio for each pool, selected to match the risk and return characteristics of the pool.
The Foundation's goal, over each five-year time period, is to earn a rate of return that exceeds that of the reference portfolio adjusted for costs and fees.

## Administrative and Review Procedures

- The Committee will review this Policy as needed and report any recommended changes to the Investment Advisor as needed.
- The Committee will review the performance of the Portfolio assets each meeting with the assistance of the Investment Advisor and the Foundation's staff. These reviews will include:
  - Review of the Portfolio's overall asset allocation to assure adherence to Committee guidelines.
  - Review of performance against the benchmarks set forth in this document.
- The Foundation's Staff and the Investment Advisor will perform the above review at least quarterly and report any deviations or concerns as soon as practical to the Committee Chairperson.

## Appendix A

## Strategic Asset Allocation

The Foundation has adopted the following strategic asset allocation strategy for each pool. All figures listed here refer to an asset class's percentage of the pool's total assets. The target ranges listed here represent the acceptable allocation ranges for each asset class. Actual asset allocation will be compared to these ranges on a regular basis. In the event that the allocation to a particular asset class falls outside of the "Target Range," the Portfolio will be re-balanced within the next three months so that all asset classes are within their permitted allocations. In circumstances where markets are under duress or where a rapid rebalancing may result in adverse effects on asset values, the Committee may elect to extend the timing for such a re-balancing action.

In general, the Advisor will seek to keep regional weightings (i.e., US, Non-US developed, and Emerging Markets) within 10 percentage points of the weightings of the MSCI ACWI index. Deviations from those regional limits can be allowed if approved by the Committee.

The benchmark for each pool is based on the strategic asset allocation using suitable market indices to represent each asset class, as listed below. This custom benchmark is calculated on a monthly basis using the Target Percentage weights listed below:

### Endowment Growth Fund

| **Benchmark** | **Target** | |
|---|---|---|
| MSCI ACWI | 70% | |
| Barclays US Aggregate | 30% | |
| **Asset Class** | **Target** | Typical Range |
| Cash and Cash Equivalents | 0% | (30%)-10% |
| Fixed Income | 19% | 10%-40% |
| Public Equities | 27% | 20%-85% |
| Commodities | 0% | 0%-15% |
| Derivative Overlay | 16% | (30%)-30% |
| Semi-Liquid Credit Strategies (Fixed Income Risk) | 7% | 0%-20% |
| Semi-Liquid Equity Strategies (Equity Risk) | 17% | 0%-30% |
| Other Semi-Liquid Strategies | 0% | 0%-30 |
| Private Equity | 18% | 0%-30% |
| Private Real Assets (60% Equity, 40% Fixed Income Risk) | 12% | 0%-25% |

### Liquid Long-Term Growth Fund

| **Benchmark** | **Target** | |
|---|---|---|
| MSCI ACWI | 70% | |
| Barclays US Aggregate | 30% | |
| **Asset Class** | **Target** | Typical Range |
| Cash and Cash Equivalents | 0% | (30%)-10% |
| Fixed Income | 34% | 20%-40% |
| Public Equities | 66% | 20%-85% |
| Commodities | 0% | 0%-15% |

## Liquid Balanced Fund

| **Benchmark** | **Target** | |
|---|---|---|
| MSCI ACWI | 50% | |
| Barclays US Aggregate | 50% | |
| **Asset Class** | **Target** | Typical Range |
| Cash and Cash Equivalents | 0% | (25%)-10% |
| Fixed Income | 53% | 40%-65% |
| Public Equities | 47% | 10%-65% |
| Commodities | 0% | 0%-15% |

## Money Market Fund

| **Asset Class** | **Target** |
|---|---|
| Cash | 100% |