



**Petaluma Educational Foundation  
INVESTMENT POLICY STATEMENT**

**Invested and Endowed Funds**

## **Executive Summary:** **Petaluma Education Foundation**

Client type: Long-Term Endowment Funds

### **Return Objectives:**

We define investment objectives by utilizing market cycles, which vary in timing. The effects of inflation are most often felt over many market cycles, which would be more prolonged periods. Over the long term, we expect our donor funds to keep pace with inflation. Over a shorter term, one market cycle, we expect our portfolio to achieve a consistent target as outlined below:

Over one market cycle, usually 5-8 years, we expect our portfolio to deliver a 6% return. Spending Policy + Administration Fee = Minimum Long-term return (6.00%)

Over multiple cycles, usually greater than ten years, we expect our portfolio to deliver an 8% return. Spending Policy + Administration Fee + Inflation = Long Term Objective (8.00%)

### **Purpose:**

- 1) State the committee's attitudes, expectations, objectives, and guidelines for investing the portfolio's assets in a written document.
- 2) Encouraging effective communications between the committee and all parties involved with the investment management decisions.
- 3) Establish formal criteria for selecting, monitoring, evaluating, and comparing the performance results achieved by each investment option regularly.
- 4) Comply with all applicable fiduciary, prudence, and due diligence requirements; experienced investment professionals would utilize and with all applicable laws, rules, and regulations from various local, state, federal, and international political entities that may impact the Portfolio.

### **Statement of Objectives**

#### **Background**

The Petaluma Educational Foundation (PEF) was created in 1982. PEF is a broadly based, nonprofit 501(c)3 community organization whose purpose is exclusively educational and charitable. PEF secures and distributes contributions from individuals, corporations, and foundations to benefit all

students in schools in the Petaluma area. PEF administers a Grants Program which enables teachers and school communities to bring innovative ideas to fruition. PEF is particularly interested in funding vital academic programs initiated at school sites to complement the learning environment, demonstrate creative and effective ways to meet student needs, enhance student achievement, and increase learning motivation.

This IPS has been arrived at after the Committee considered a wide range of policies and describes the prudent investment process the Committee deems appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer the opportunity to diversify the portfolio in a manner consistent with the specified risk and return requirements of the portfolio.

**The objectives of the Portfolio are:**

- 1) Maintain the purchasing power of the current assets and all future contributions. The objective is to maintain the level of services and programs concerning inflation.
- 2) Maximize return within reasonable and prudent levels of risk.
- 3) Maintain an appropriate asset allocation based on a total return policy that will support a spending policy of 5% while keeping pace with inflation and expenses.

**Time Horizon**

The investment guidelines are based upon an investment horizon of greater than five years, or what we consider as one market cycle.

**Risk Tolerances**

The Committee recognizes that some risk must be assumed to achieve the portfolio's investment objectives. In establishing the IPS's risk tolerances, the ability to withstand short—and intermediate-term variability is considered.

**Performance Expectations**

The desired investment objective is a long-term rate of return on assets at least 6.0%. The target rate of return for the Portfolio has been based upon the assumption that future actual returns will approximate the long-term rates of return experienced for each asset class in the IPS. The Committee realizes market performance varies, and a 6.0% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the investment options are outlined in the "Monitoring" section.

## **Duties and Responsibilities**

### **Board of Directors:**

- 1) Ensure that costs are appropriate and reasonable in relation to the institution's assets, purposes, and skills.
- 2) Make reasonable efforts to verify facts relevant to the management and investment of various investment pools. Approve any investment management service providers' selection, retention, and termination.
- 3) Approve the investment and spending policies for the various investment funds.

### **Investment Committee:**

- 1) Prepare and maintain this investment policy statement.
- 2) Prudently diversify the portfolio's assets to meet an agreed-upon risk/return profile.
- 3) Control and account for all investment, record keeping, and administrative expenses associated with the portfolio.
- 4) Prudently monitor and supervise all service vendors and investment options. Avoid prohibited transactions and conflicts of interest.

### **Custodian (currently Exchange Bank Wealth Management):**

Custodians are responsible for the safekeeping of the portfolio's assets. The specific duties and responsibilities of the custodian are:

- 1) Value the holdings.
- 2) Collect all income and dividends owed to the portfolio. Settle all transactions (buy-sell orders).
- 3) Provide monthly reports that detail transactions, cash flows, securities held and their current value, and changes in the value of each security and the overall portfolio since the previous report.

### **Implementation (currently Exchange Bank Wealth Management):**

Presently, Exchange Bank Wealth Management will implement the investment strategy defined by this IPS's Portfolio Construction and Management section. They will use the agreed-upon criteria to select appropriate investment options and provide a monitor report to the Investment Committee.

Exchange Bank will also provide implementation recommendations to the Investment Committee regarding portfolio reallocations and/or investment decisions beyond the defined Portfolio Construction and Management guidelines. Only after the Investment Committee's review and the Board's authorization to adjust this Investment Policy Statement will Exchange Bank implement these recommendations.

### **Portfolio Construction and Management:**

#### **Diversification and Asset Class Guidelines**

The committee believes long-term investment performance, in large part, is primarily a function of asset class mix. Historically, while interest-generating investments, such as bonds, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation.

On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability is worth accepting, given the portfolio's long-term time horizon.

Focusing on balancing the risks and rewards of each broad asset class, the following classes were selected and ranked in ascending order of "risk." The funds' investment shall be limited, in general, to '40 Act funds (pooled investment vehicles offered by a registered investment company as defined in the 1940 Investment Companies Act).

- Short-Term Fixed Income & Cash (Bonds, Money Markets, & Cash Alternatives)
- Long & Intermediate-Term Fixed Income (Bonds)
- Domestic Equities (US Stocks)
- International Equities (Foreign Stocks)

**Rebalancing of Strategic Allocation:**

The percentage allocation to each peer group may vary depending on market conditions. Please reference the allocation table below for each peer group's lower and upper limits. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the portfolio's strategic asset allocation and allocation ranges. If there are no cash flows, the portfolio's allocation will be reviewed quarterly.

Asset Classes	Strategic Allocation	Lower Limit	Upper Limit
Short-Term Fixed Income & Cash	10	5	20
Long & Intermediate-Term Fixed Income	30	20	35
U.S. Large Cap Equities	32	30	35
U.S. Small / Mid Cap Equities	8	5	10
Developed International Equities	15	10	18
Emerging Markets Equities	5	2	8

**Monitoring - Performance Objectives**

The committee acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term periods. Recognizing that short-term fluctuations may cause variations in performance; the committee intends to evaluate investment performance from a long-term perspective.

The committee knows the ongoing review and analysis of investment options are as critical as the due diligence process. The performance of the investment options will be monitored on an ongoing basis. If appropriate, the committee can take corrective action by replacing a manager.

**Monitoring - Benchmarks**

The Committee has determined that performance benchmarks be established for each investment option. Manager performance will be evaluated regarding an appropriate market index (e.g., the S&P 500 stock index for large-cap domestic equity managers) and the relevant peer group (e.g., the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Exchange Bank will select the benchmarks and provide quarterly monitoring reports to the investment committee.

**Monitoring - Measuring Costs**

The committee will review at least annually all costs associated with the management of the portfolio, including:

- 1) Expense ratios of each mutual fund against the appropriate peer group.
- 2) All investment costs necessary to administer the portfolio, including record keeping, custody, and trust services.
- 3) The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the portfolio.

**Investment Policy Review**

The committee will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

**PEF Investment Advisory Committee:**

- Brian Breen/Chair
- Tim McGaughey/PEF Board Member
- Elias Husary/Community Member
- Craig Walker/PEF Board Member
- Chad Fillinger/PEF Board Member
- Maureen Highland/PEF Executive Director

***PEF IPS Update: February 2025***

## **PEF Investment Policy Statement ADDENDUM: SHORT-TERM FUND**

### **Executive Summary**

Petaluma Education Foundation

Client type: Short-Term Organization Funds

#### **Objectives of the Portfolio:**

- 1) Support short-term cash flow needs of Petaluma Educational Foundation.
- 2) Provide short-term investment structure for any fund, including Non-Profit Organizational Funds.
- 3) Maintain the purchasing power of the current assets and all future contributions. The objective is to maintain the level of services and programs in relation to inflation.
- 4) Maximize return within reasonable and prudent levels of risk.

#### **Time Horizon:**

The investment guidelines are based upon an investment horizon of less than five years.

#### **Risk Tolerances:**

The Committee recognizes that some risk must be assumed to achieve the portfolio's investment objectives. In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate-term variability was considered. The portfolio's short time horizon, current financial condition, and several other factors suggest collectively that only minor interim fluctuations in market value and rates of return may be tolerated to achieve the short-term objectives.

#### **Performance Expectations:**

The desired investment objective is a long-term rate of return on assets at least 3.5%. The target rate of return for the Portfolio has been based upon the assumption that future actual returns will approximate the long-term rates of return experienced for each asset class in the IPS. The Committee realizes market performance varies, and a 3.5% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the investment options are set forth in the "Monitoring" section.



**Rebalancing of Strategic Allocation:**

The percentage allocation to each peer group may vary depending upon market conditions. Please reference the allocation table below for the lower and upper limits for each peer group. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation and allocation ranges of the portfolio. If there are no cash flows, the allocation of the portfolio will be reviewed quarterly.

Peer Group	Strategic Allocation	Lower Limit	Upper Limit
Intermediate-Term Bond	40%	30%	50%
Short-Term Bond	40%	30%	50%
World Stock	20%	15%	25%