YOLO COMMUNITY FOUNDATION

<u>INVESTMENT POLICY STATEMENT</u>

governing

ENDOWMENT FUNDS

and

EXPENDABLE FUNDS

**** Adopted June 2, 2004****

YCF

Yolo Community Foundation

P.O. Box 1264 Woodland, CA 95776
www.yolocf.org email: info@yolocf.org

This Investment Policy Statement replaces any previous statement and is effective immediately.

INVESTMENT POLICY DISCUSSION
WHAT IS AN INVESTMENT POLICY?

An investment policy outlines and prescribes a prudent and acceptable investment philosophy and defines the investment management procedures and long-term goals for the investor.

THE NEED FOR A WRITTEN POLICY

Requirements to which company retirement plans were subject originally created the need for written investment policies. The process for developing investment policies has proven so useful for companies that many investors have adopted the concept and now make use of written investment policies for all organizations and individuals. With the enactment of ERISA in 1974, plan fiduciaries became liable for breaches in prudence and diversification standards. ERISA 402(b)(1) states, "Every employee benefit plan shall provide a procedure for establishing and carrying out a funding policy and method consistent with the objectives of the plan and requirements of this title." The adoption of the Uniform Prudent Investors Act by the State of California now provides the framework for investment policy statements in any situation where trustees have fiduciary responsibility.

A written investment policy allows trustees to clearly establish the prudence and diversification standards which they want the investment process to maintain. Trustees should develop a written policy whether or not they take an active role in the investment of pension assets or delegate the task to outside investment managers or provide the participants with the right to direct their own accounts. The net effect of the written policy is to increase the likelihood that the investment plan will be able to meet the financial needs of the Foundation, the donors and the beneficiaries through the development of specific objectives.

INVESTMENT MANAGER PERFORMANCE EVALUATION

Measuring the time-weighted return is not enough. The risk of each investment portfolio should also be considered. For example, a portfolio that performs slightly under the S&P 500 but carries only half the overall risk is superior on a risk-adjusted basis to a portfolio that slightly outperforms the S&P 500 but carries a full amount of market risk. Deciding when to replace a portfolio manager is often subjective as much as objective. Just because a manager had a down year or two is not a valid reason for replacement. This document lays out the procedures to be followed in order to create a system for making such decisions.

INTRODUCTION

The purpose of this Investment Policy Statement (IPS) is to establish a clear understanding of the intent of the Trustees of the Yolo Community Foundation Endowment Fund (Trustees) and the selected investment managers as to the investment objectives and policies applicable to the Trustees' investment portfolio. This Investment Policy Statement will:

- establish reasonable expectations, objectives and guidelines in the investment of the Portfolio's assets
- set forth an investment structure detailing permitted asset classes and expected allocation among asset classes
- encourage effective communication between the Trustees and the selected investment managers.
- create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the Trustees
- This IPS is not a contract. This IPS is intended to be a summary of an investment philosophy that provides guidance for the Trustees and the selected investment managers.

OVERVIEW OF THE CURRENT SITUATION

The Yolo Community Foundation is a 501(c) (3) tax-exempt organization founded in 2002 whose purpose is to promote philanthropy in Yolo County for the benefit of the residents of the county. The Yolo Community Foundation has an annual budget which consists of revenues from memberships, admissions, and grants from individuals, private foundations, and governmental agencies. The Foundation has established an Endowment Fund and an Expendable Fund in connection with its planned giving program. The purpose of all YCF funds is to provide:

1) Funds for special projects identified by donors with specific bequests
2) Funds for grants deemed appropriate by the trustees of YCF
3) Revenue to the YCF in case of a deficit

Neither anticipated operating deficits within the near future, nor any building plans exist.

ADDRESS AND TITLING INFORMATION

Yolo Community Foundation
Endowment Fund
P.O. Box 1264
Woodland, CA 95776

ACCOUNT INFORMATION

Investment Account

Custodian: A.G. Edwards & Sons
Account Numbers:
Tax ID Number: 75-2971085
Authorized Decision Makers:
Committee majority vote
Members of the Committee: Paul Harder, Board Treasurer
Joan Hogan, Board President
Maggie Burns
Jacqueline Schad

Current Value of Endowment Fund: $
Investment Advisors:
Tax Preparer:

Economic Outlook

The Trustees are optimistic about the U.S. economy over the longer term. The Trustees believe inflation will increase from its current rates. The long-term estimate of inflation will be similar to the long-term rate of the last century, approximately 3.0%.

The YCF has plans to provide for its operating budget for the next several years. The Trustees believe that operating budget requirements will continue to be met satisfactorily through normal YCF activities for the foreseeable future.

ESTIMATE OF GRANT NEEDS

The YCF will develop an annual budget for operating costs and for making grants.

INVESTMENT OBJECTIVES

Although the fund should seek to provide an annual income growing in line with inflation, the primary investment objective for the fund's assets is to seek growth of principal over time. The Trustees expect to need only a small amount of income immediately and therefore will only accept minimal short-term volatility in those assets providing income; however, the majority of assets are to be invested for the long term, and volatility in these assets is to be expected and accepted. The investment objectives for these assets shall be to achieve *an average annual rate of return of the Consumer Price Index plus 4%* plus the administration costs for the aggregate investments under this Investment Policy Statement evaluated over a period of five years.

For the Expendable Fund, the primary concern is protecting capital. Therefore the investments are limited to short and intermediate term fixed income investments with amounts in money markets or checking accounts as circumstances warrant.

TIME HORIZON

For the purposes of planning, the time horizon for investments is to be in excess of ten years. Capital values do fluctuate over shorter periods and the Trustees recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of at least three to five years can be minimized with the long-term investment mix employed under this IPS.

RISK TOLERANCE

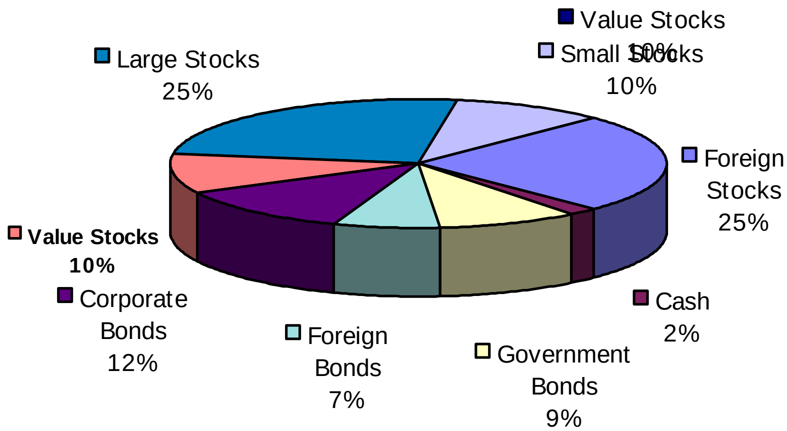
The Trustees believe a moderate risk position is appropriate and rate their own risk tolerance as moderate. The Trustees recognize that higher returns involve some volatility and are willing to tolerate declines in the value of this portfolio of between 0% and 12% in a given year. The Trustees would accept losses as often as four out of ten times to achieve higher returns.

The Trustees intend that the portfolio should be managed in a manner that seeks to achieve the stated rate of return while limiting principal fluctuations over the established horizon. Financial research has demonstrated that risk is best minimized through diversification of assets, including international investments.

ASSET ALLOCATION

Academic research suggests that the decision to allocate total assets among various asset classes will far outweigh security selection and other decisions that impact portfolio performance. After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risks and rewards of market behavior, the Trustees have selected the following asset classes to achieve the objectives of the portfolio.

Asset Category	Initial Target Allocation		Acceptable Range
Cash	2.0%	2.0%	2 - 10%
Fixed Income	28.0%		23 - 33%
U.S. Government or Agency Bonds		8.0%	
Foreign Bonds		7.0%	
U.S. Corporate Bonds		11.0%	
Mortgage-Backed Securities		2.0%	
Stocks	70.0%		65 - 75%
U.S. Stocks – market neutral		25.0%	
U.S. Stocks - value		10.0%	
Small Company Stocks		10.0%	
Foreign Stocks		25.0%	
TOTAL		100.0%	



OPTIMIZATION ESTIMATES

No guarantees can be given about future performance, and no person shall assume or construe that this IPS offers such a guarantee.

The Portfolio will invest in mutual funds, stocks and bonds whose value varies. Thus the actual weightings of these investments can and will vary and, as a result, actual returns can be higher or lower than those presented below.

For purposes of illustration ***solely***, a portfolio of assets (exclusive of any funds which may be managed elsewhere) combined in a manner consistent with the normalized weightings suggested above and using standardized figures for each represented asset class based on historical norms and adjusted for today's environment suggests that 95% of the time, performance results can be reasonable projected as follows:

APPROXIMATED FUTURE RETURNS

For Trustee's Allocation Based on Asset Class Categories

	One Year	Ten Year
Maximum for Period	26%	15%
Estimated Average	9.7%	9.7%
Minimum for Period	-10%	4%
"Worst Case Conditions"	-15%	3%

All return calculations herein include price appreciation/depreciation, income distributions and capital gains distributions. Above figures based on 95% statistical likelihood, except for those of "Worst Case Conditions" which returns are expected to exceed all but 1/2% of the time.

The Trustees expect that this portfolio design can experience losses two in five times, and in such cases should take an average of somewhat more than twelve months to recover such losses. Over a five-year period, such a portfolio's performance should exceed inflation in all but 1/20 of the time.

Assumptions Used to Calculate Expected Returns

Asset Class	Expected Return	Standard Deviation
Large U.S. Stocks	9.75%	15.63%
Small Company Stocks	11.00%	19.21%
Value U.S. Stocks	10.50%	13.96%
Foreign Stocks	11.00%	14.66%
U.S. Government Bonds	6.50%	5.20%
U.S. Corporate Bonds	7.50%	5.75%
Foreign Bonds	7.50%	6.90%
Real Estate	9.50%	8.41%
Cash	4.80%	0.74%

Updated Allocations

From time to time the Trustees may determine that updates to the basic allocation policy or calculations are appropriate. When such changes are made, updates will be attached to this Investment Policy Statement as an Appendix and will be considered part of this Investment Policy Statement.

Rebalancing Procedures
From time to time, market conditions may cause the portfolio's investment in various asset classes to vary from the established allocation. To remain consistent with the asset allocation guidelines established by this IPS, the investment manager will review each asset class in which the Portfolio invests on a quarterly basis. The manager will rebalance the portfolio back to the recommended weighting if the actual weighting varies by 10% or more from the recommended weighting (e.g., 10% of the desired weight. For example a target of 40% allocation can vary 10% on either side. This is 10% of 40% or 4%)

LIQUIDITY

The Trustees have determined that the investments must be readily converted to cash and equivalents. Assets which may require considerable discounts to convert to cash are not suitable. Certificates of deposit are considered to have adequate liquidity.

MARKETABILITY OF ASSETS

The Trustees have determined that all investment assets must be readily marketable. This means that a market of sufficient breadth and depth must exist so that a trading partner can reasonably be found within one week.

DIVERSIFICATION

Investment of the Trust funds shall be limited to the following categories:

A. Permitted Investment Categories
1. Cash and cash equivalents, including money market funds
2. Fixed income assets
   a) Bonds (corporate, U.S. government, or foreign government)
   b) Bank certificates of deposit
   c) Secured bank loans, pooled accounts (commonly known as prime rate trusts)
   d) Mortgages backed securities/promissory notes
3. Stocks (U.S. and foreign-based companies)
4. Real Estate

B. Excluded Categories for Investment

1. Equipment leasing
2. Natural resources
3. Precious metals
4. Venture capital
5. Uncovered options
6. Futures contracts

C. Investment Concentration

Bond maturities shall average no more than 7 years. No more than 8% of bonds in the portfolio shall have maturities at any time of greater than 10 years.

Most of the portfolio will be invested in mutual funds. No single mutual fund shall represent more than 35% of the entire value of the portfolio. No individual security held shall represent more than 5% of the total portfolio.

D. Management Style

The Trustees have determined that they prefer the use of “index” funds as the vehicle for investing in asset classes. Other management styles may be considered, but may not constitute more than half of the common stock investments, or the equivalent of 35% of the total portfolio.

E. Socially Responsible Investments

When the Trustees consider any investments which are considered to be “socially responsible”, the following criteria apply.

1. Any such investments must meet the screening requirements for the investment in that asset class.

2. Given that all relevant criteria for measuring investment merit are approximately equal, the Trustees may select the “socially responsible” investment for its socially responsible features.

SELECTION AND RETENTION CRITERIA

A. Cash Equivalent Vehicles

The Trustees have determined that all cash equivalent investments shall be pooled investment vehicles, such as money market funds, where a fund's share price is intended to remain constant and the fund's yield is comparable with the current risk-free rate of return. This category shall include also United States agency-guaranteed bank certificates of deposit (purchased directly from banks or indirectly through brokerage accounts) or short-term U.S. government securities.

The Trustees have established the following criteria for selecting and retaining any pooled investment vehicle serving as a Cash Equivalent investment:

1. The fund will have an investment track record of no less than three years.

2. The funds expenses will rank in the lower half (least expensive) of all such comparable funds as measured over the last twelve months.

3. The fund's average annualized yield, net of fund level expenses, over a three-year period will be no less than 1.00% below that of the average of all other funds sharing a similar investment objective for an equivalent period.

The Trustees will review the performance of each Cash Equivalent vehicle on a quarterly basis. The investment vehicle's total returns will be compared with the average returns for all other cash equivalent funds with a similar investment objective for the previous one, three, and five year periods.

Any fund failing any of the investment criteria will be placed on probation for the subsequent twelve months. If over the subsequent one year period the fund's annual return and/ or expenses fail the investment criteria, the Trustees will decide whether the fund continues to be a prudent and appropriate investment.

B. Common Stocks

The Trustees have determined that any selected Common Stock Funds shall be pooled investment vehicles, such as a publicly traded open or closed-end mutual fund, providing daily asset valuations. Such investments may include focus on any size domestic or non-U.S. stock.

The Trustees have established the following criteria for the selection and retention of any pooled common stock investment vehicles:

1. The fund will have an investment track record of no less than three years.

2. The funds expenses will rank in the lower half (least expensive) of all such comparable funds as measured over the last twelve months.

3. The fund's average annualized returns net of fund expenses will rank in the top half of the average returns for equivalent pooled investment vehicles sharing the same investment objective over a three year time period. It will also provide a return no less than 0.5% below the comparable benchmark after subtracting fund expenses.

4. The fund will incur investment risk no more than 20% above that incurred by publicly traded funds with the same investment objective, as measured by the fund's standard deviation.

The Trustees will review the performance of each Common Stock Fund on a quarterly basis.

Each fund's total returns will be compared against both an appropriate benchmark and the average returns for equivalent pooled investment vehicles sharing the same investment objective for the previous one, three, and five year periods.

To remain as a selected investment, the fund must provide a return no less than 0.5% below the comparable benchmark after subtracting fund expenses. Also, the fund must also rank in the top half of the applicable equivalent pooled investment vehicle averages for the period of last three years. If the fund fails these criteria, it will be placed on probation for the subsequent twelve months. If the fund fails the same criteria over the subsequent 12 months the Advisor, in conjunction with the Trustees, will make a determination as to whether the fund continues to be a prudent and appropriate investment.

The relative risk of the selected investment vehicle will also be reviewed on a quarterly basis, as measured by the fund’s standard deviation, over the most recent one-, three-, and five-year periods. The fund's relative risk is to be calculated by independent fund evaluation services, such as Lipper Analytical Services, Inc. or Morningstar, Inc.

The fund must maintain a risk level not more than 20% more than that incurred by the benchmark or the average for equivalent pooled investment vehicles sharing the same investment objective over any previous three-year period. If the fund fails this measure, the Trustees will determine whether the fund continues to be a prudent and appropriate investment.

C. Bond Funds and Other Fixed Income Vehicles

The Trustees have determined that any selected diversified bond fund shall be a pooled investment vehicle, such as a publicly traded mutual fund, providing net asset valuations published on a daily basis.

The Trustees have established the following criteria for selecting and retaining such diversified bond funds:

1. The fund will have an investment track record of no less than three years.

2. The funds expenses will rank in the lower half (least expensive) of all such comparable funds as measured over the last twelve months.

3. The fund must rank in the top half of all diversified bond funds sharing the same investment objective over a three-year time period. It must also provide a return no less than 0.5% below the comparable benchmark after subtracting fund expenses.

4. The fund will incur investment risk no more than 20% above that incurred by publicly traded funds with the same investment objective, as measured by the fund's standard deviation.

5. The fund will invest in no fewer than twenty income producing securities representing at least twenty corporate issuers or a comparable number of securities backed by the full faith and credit of the U.S. government or one of its agencies or a combination thereof.

The Trustees, will review the performance of the selected investments on a quarterly basis.

Each fund's returns will be compared to the appropriate benchmark and the average returns of all diversified bond funds sharing the same investment objective for the previous one-, three-, and five-year periods.

To remain as a selected investment, the fund must provide a return no less than 0.5% below the comparable benchmark after subtracting fund expenses. Also, the fund must also rank in the top half of the applicable equivalent pooled investment vehicle averages for the period of last three years. If the fund fails these criteria, it will be placed on probation for the subsequent twelve months. If the fund fails the same criteria over the subsequent 12 months the Advisor, in conjunction with the Trustees, will make a determination as to whether the fund continues to be a prudent and appropriate investment.

The relative risk of the selected investment vehicle will also be reviewed on a quarterly basis, as measured by the vehicle's standard deviation, over the most recent one-, three-, and five-year periods. The fund's relative risk is to be calculated by independent fund evaluation services such as Lipper Analytical Services, Inc. or Morningstar, Inc.

The fund must maintain a risk level not more than 20% more than that incurred by the benchmark or the average for equivalent pooled investment vehicles sharing the same investment objective over any previous three-year period. If the fund fails this measure, the Trustees will determine whether the fund continues to be a prudent and appropriate investment.

D. Additional Investments, If Any

The Trustees have established the following criteria for selecting and retaining other investment vehicles the Trustees may wish to hold.

When determined to be appropriate by the Trustees, such investments may include direct investments, either publicly available or limited in scope and, therefore, not available to the general public. Such vehicles may or may not provide daily valuations. The limitations on liquidity and marketability must apply.

The selection and use of such vehicles shall be restricted by the following criteria:

1. All such vehicles, in the aggregate, shall be no more than 5% of the portfolio.
2. The proposed manager(s) of such vehicles, if any, shall have a proven and successful track record of at least five years in endeavors sharing a similar investment process.
3. The Trustees shall determine whether such vehicles are appropriate based on the needs of the overall portfolio. Any such vehicle must be expected to help increase the overall portfolio return while not significantly increasing overall risk, or to help decrease the overall portfolio risk while not significantly decreasing overall returns.

INVESTMENT MONITORING AND CONTROL PROCEDURES

Reports

1. Custodian shall provide the Trustees with a report no less than monthly that lists all assets held by the Trustees, values for each asset and all transactions affecting assets within the portfolio, including additions and withdrawals.

2. Trustees shall receive no less frequently than on a quarterly basis and within 30 days within the end of each such quarter the following management reports:

    a) Portfolio performance results over the last quarter, 1 year, 3 years, and 5 years

    b) Performance results of each individual manager for the same periods

    c) Performance results of comparative benchmarks for the same periods

    d) Performance shall be reported on a time-weighted and a dollar-weighted rate of return basis

    e) End of quarter status regarding asset allocation—current versus policy

USE OF INVESTMENT ADVISORS

The Trustees may hire investment advisors to assist in the investment management process provided the investment advisors have the necessary credentials and accept their fiduciary responsibility in writing.

Duties and Responsibilities of Investment Advisors

Any investment advisor is responsible for:

1. Assisting the Trustees in making an appropriate asset allocation decision based on the particular needs, objectives, and risk profile of the Trustees.
2. Advising the Trustees about selecting and allocating of asset categories
3. Identifying specific assets and investment managers within each asset category
4. Providing the Trustees with the current prospectus for each investment proposed for the portfolio.
5. Monitoring the performance of all selected assets.
6. Recommending changes to any of the above.
7. Periodically reviewing the suitability of the investments for the Trustees.

8. Being available to meet with the Trustees at least twice each year, and being available at such other times within reason as the Trustees request.
9. Preparing and presenting appropriate reports.
10. Investment advisors will not take title to any assets nor shall they exercise discretionary control over any of the Trustee's assets.
11. Investment advisors shall be responsible only to make recommendations to the Trustees and to implement investment decisions as directed by the Trustees.

Donors responsible for contributions of $2 million or more in their individual donor advised fund may elect to select a financial manager of their choice with the approval of the Yolo Community Foundation board.

ADOPTION

This Investment Policy Statement is adopted by the Yolo Community Foundation represented by the duly empowered Trustees signing below.

______________________________ ______________________

Date

______________________________ ______________________

Date

______________________________ ______________________

Date

______________________________ ______________________

Date