

SJCOG, Inc. Investment Policy Statement
for the
San Joaquin Multi-Species Habitat Conservation and Open Space Plan (“Plan”)
Endowment Fund
February 25, 2021

SJCOG, Inc. is a 501(c)(3) nonprofit entity that has authority over an endowment fund for the San Joaquin County Multi-Species Habitat Conservation and Open Space Plan (“Plan”). SJCOG, Inc. is governed by the San Joaquin Council of Governments, a public agency joint-powers authority. SJCOG, Inc. is responsible for implementation of the Plan that will result in acquisition and management in perpetuity of a 100,000-acre habitat and open space preserve by 2050, the end of the Plan’s permit term.

The purpose of this Investment Policy Statement for the Plan’s Endowment Fund is to document investment objectives and establish an appropriate investment strategy including investment objectives, investment time horizon, asset allocation targets and ranges, performance measurement, and periodic performance reporting requirements.

1. Investment Objectives

- a. To invest assets of the Endowment Fund in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of SJCOG, Inc. beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
- b. To achieve a long-term rate of return on Endowment Fund assets equal to or exceeding an average annual target of 7.25% (“Target Rate of Return”) including estimated inflation of 3.00% and equal to a 4.25% real rate of return.
- c. To provide for withdrawals in perpetuity at a rate of 4.25% of Endowment Fund assets (“Withdrawal Rate”), adjusted for inflation, for payment of long-term liabilities and reasonable expenses required by the Plan, including Investment Advisor and custodial fees, (collectively “Post-Permit Costs”) following expiration of the Plan’s permit in 2050.
- d. To achieve the Target Rate of Return adjusted for inflation, by enhancing the value of Endowment Fund assets over the long term through asset appreciation and income generation, at the lowest possible investment risk profile.

2. Time Horizon

The Endowment Fund’s investment objectives should consider that (1) no withdrawals are anticipated and all earnings will be reinvested in the Fund prior to the end of the permit term in 2050, (2) SJCOG, Inc. will make regular (e.g. quarterly) deposits to the Endowment Fund prior to 2050 sufficient to grow the Fund to the value required to fund Post-Permit Costs at the Withdrawal Rate, and (3) after 2050 SJCOG, Inc. will make withdrawals for Post-Permit Costs adjusted for inflation in perpetuity. Interim fluctuations should be viewed with appropriate perspective. The long-term investment horizon contemplates risks and duration of investment losses, which are carefully weighed against the long-term potential for appreciation of assets.

3. Liquidity and Diversification

In general, the Endowment Fund may hold some cash, cash equivalent, and/or money market funds for near-term liabilities and expenses. Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

4. Use of an Investment Advisor

An investment advisor (“Advisor”) may be hired to assist SJCOG, Inc. in the Endowment Fund investment process and to maintain compliance with the Plan and applicable laws and regulations. The Advisor may assist SJCOG, Inc. in establishing investment policy objectives and guidelines. The Advisor will adjust asset allocation for the Endowment Fund subject to the guidelines and limitations set forth in this Investment Policy Statement and the Advisor’s evaluation of national and international economic and investment market factors and trends. The Advisor will also select investment managers and strategies consistent with its role as fiduciary. The investment vehicles allowed may include exchange traded funds (“ETFs”), mutual funds, collective trusts, separate accounts, limited partnerships and other investment vehicles deemed to be appropriate by the Advisor. The Advisor is also responsible for monitoring and reviewing investment managers, measuring and evaluating performance, and other tasks as deemed appropriate in its role as Advisor for the Endowment Fund.

5. Asset Allocation

To achieve the greatest likelihood of meeting the Plan’s investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Plan’s Target Rate of Return over the long term.

Asset Classes	Asset Weightings	
	Range	Target
Growth Assets		
Domestic Equity	26% - 66%	46%
International Equity	4% - 44%	24%
Other	0 - 10%	0%
Income Assets		
Fixed Income	10% - 50%	30%
Other	0% - 10%	0%
Real Return Assets	0% - 10%	0%
Cash Equivalents	0% - 20%	0%

The asset allocation range represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside these ranges. When allocations breach the specified ranges, the Advisor will rebalance the assets within the specified ranges. The Advisor may also rebalance based on market conditions.

6. Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of SEC Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

7. Limitations on Managers' Portfolios

Every effort shall be made by the Advisor, to the extent practical, prudent and appropriate, to select investments that have investment objectives and policies that are consistent with this Investment Policy Statement. Given the nature of the investments and with management review, it is recognized that there may be deviations between this Investment Policy Statement and the objectives of these investments. If deviations occur, the Advisor shall notify SJCOG, Inc.

Equities. No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues and MSCI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

International Equities. The overall non-U.S. equity allocation should include a diverse global mix of the equity of companies from multiple countries, regions and sectors.

Fixed Income. Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets as calculated by the Advisor shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization ("NRSRO").

Real Return Assets. Real return assets may consist of collection of investments and/or asset classes (e.g. commodities, real estate or infrastructure) whose primary risk and return characteristics are focused on real returns after inflation.

Other Assets ("Alternatives"). Alternatives may consist of non-traditional asset classes, such as private equity, private debt, hedge funds, and real assets (e.g., real estate or infrastructure). The total allocation to alternatives may not exceed 10% of the overall portfolio. Prior to adding an allocation to any of these asset classes, with the exception of publicly-traded mutual funds or ETFs, the Advisor shall receive approval from SJCOG, Inc.

Cash Equivalents. Cash equivalents are investments designed to provide liquidity. Investments may include funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

8. Safekeeping

All assets of the Plan shall be held by a custodian approved for safekeeping assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Agreement. Investments of the Plan not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

9. Performance Measurement and Reporting

Measurement of the return on investment for Endowment Fund assets will be judged by reviewing actual returns compared to industry standard benchmarks that reflect Fund asset allocations, peer universe comparisons for individual investments and blended benchmark comparisons for the Fund in its entirety. The Advisor shall compare the investment results on a quarterly basis to these benchmarks, as well as market indices in both equity and fixed income markets. The Advisor shall report the investment performance to the SJCOG, Inc. Board and officers on a quarterly basis. In addition, the Advisor will be responsible for keeping the Board and officers advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the portfolio.

10. Review of Investment Policy Statement

The Advisor shall review annually and report to the Board and officers the appropriateness of this Investment Policy Statement for achieving the Plan's stated objectives.