

Laguna Beach Community Foundation Investment Guidelines

The Laguna Beach Community Foundation (LBCF) is a perpetual organization, serving the diverse needs of donors and the community now and for the foreseeable future.

To satisfy LBCF's current and future obligations, the investment policy must encompass a balance between the protection of assets under stewardship and the growth of those assets. Protection of assets is necessary to fulfill current or short term obligations and growth of assets is necessary to fulfill longer term or perpetual obligations.

To achieve this dual mandate, LBCF distinguishes between funds that are intended to be disbursed in their entirety within two years and funds that will be drawn upon for many years.

Short Term Funds

Certain funds held and administered by LBCF are short term in nature. These funds may be designated by a donor for disbursement toward a specific project or funds held as part of a broader capital campaign, among others.

In these situations preservation of capital and liquidity are primary considerations. Such funds will be held in short term instruments such as money market accounts, highest quality commercial paper, repurchase agreements, Treasury bills, and certificates of deposits. This list is meant to be illustrative, not exhaustive. The primary consideration is safety with investment return a secondary consideration.

Longer Term Funds

Most assets held by LBCF are intended to be disbursed over a multi-year time period or in many cases the intent is for the disbursements to be made in perpetuity. Positive investment returns that are greater than a designated spending rate are critical to assure long-term positive disbursements.

To increase the probability of achieving long term growth in assets, LBCF's investments will include a mixture of bond investments to provide shorter term stability and equity investments to provide longer term growth potential. The mix of investment assets shall consist of approximately 40% fixed income investments and 60% equity investments.

Each broad asset class (fixed income/equity) shall be diversified among sub groups within the asset class to provide increased diversification. Such diversification is intended to augment total return of the asset class, decrease the overall volatility of the asset class or both.

The initial allocation of the LBCF investment assets is shown in the chart below:

Laguna Beach Community Foundation Allocation		
	% of Total	Range
Equity		
S&P 500 Composite Total Return	30%	25% - 35%
S&P 400 Midcap Total Return	9%	5% - 15%
Russell 2000 Index	6%	3% - 10%
MSCI EAFE Index	9%	5% - 15%
MSCI Emerging Markets Index	6%	3% - 15%
	60%	50% - 70%
Fixed Income		
Barclays Capital US Government Index	16%	12% - 20%
Barclays Capital US Corporate Investment Grade Index	12%	8% - 16%
Barclays Capital US Corporate High Yield Index	4%	0% - 10%
JP Morgan Global Non-US Government--Hedged	6%	3% - 10%
Barclays Capital US Mortgage Backed Securities (MBS) Index	2%	0% - 5%
	40%	30% - 50%

LBCF will use exchange-traded funds (ETFs) as its primary investment vehicles. ETFs seek to replicate the performance and volatility of the indices they represent, without attempting to add value through active management. Each ETF holds individual securities in the proportion that those securities represent in the index. For example, the ETF replicating the S&P 500 index holds stocks in 500 companies represented in the S&P 500 Index, an index meant to represent the broad equity market. The Barclays Capital US Government Index holds US Treasuries with maturities greater than one year, US agency debentures and debt guaranteed by the US government.

ETFs provide broad exposure to specific investment markets in an efficient and cost effective manner. In total the LBCF portfolio consists of thousands of individual securities and this extremely broad diversification helps minimize risks associated with any individual stock or bond.

The allocation between the fixed income and equity asset classes is a long term, strategic allocation. To change the balance between fixed income and equity outside the listed ranges requires approval by the Investment Committee and a majority vote by the LBCF Trustees. The sub-categories of fixed income and equity investments are also intended to be strategic; however, changes to these allocations may be made by majority vote of the Investment Committee at any regularly scheduled meeting of the Investment Committee.

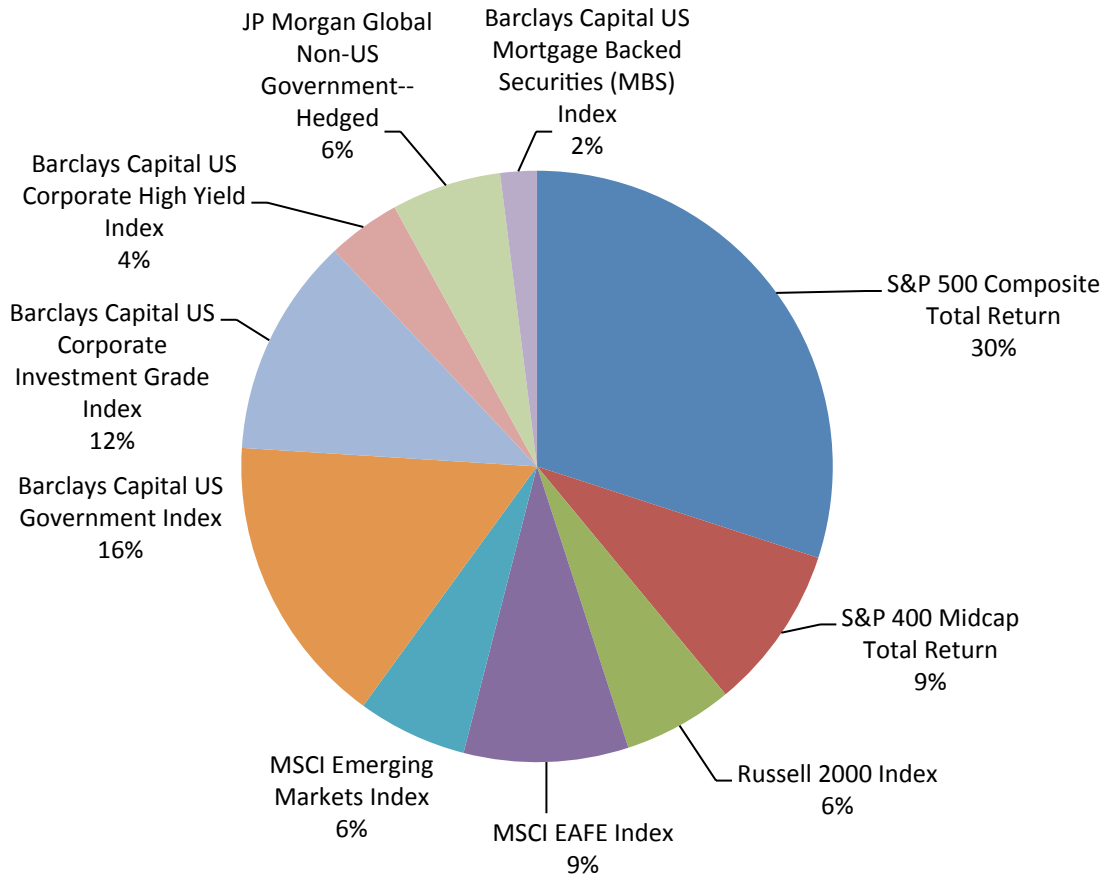
Over time the allocation outlined in the chart above has provided returns that would support the long term goals and objectives of LBCF. The chart below shows the returns of the composite over the past thirty years.* Returns are through December 31, 2015. These are gross returns that do not include management fees.

Historic Period Returns		
	Returns	Standard Deviation
1-Year	-1.2%	7.8%
3-Year	6.4%	7.0%
5-Year	6.5%	8.2%
10-Year	6.0%	10.7%
20-Year	7.2%	10.1%
30-Year	9.3%	9.9%

It is not expected that the next thirty years will replicate the previous thirty years. Standard deviation is a measurement of volatility of return. Annual returns of investments with a high standard deviation vary more than investments with a lower standard deviation.

Notes on Historic Returns: *These returns are for illustrative purposes only and do not reflect the actual returns of the LBCF Investment Pool. Prior to September 1, 2011, the performance numbers reflect the blended returns of the ten indices LBCF attempts to mimic through its investment pool investments. Beginning September 1, 2011, LBCF began investing in ten exchange-traded funds that are designed to replicate their respective indices and the performance numbers reflect the blended returns of these ten exchange-traded funds. Performance is calculated using monthly returns of the indices and assumes monthly rebalancing of the ten investments back to their intended target-weight percentages. Returns are not adjusted for an assumed or real level of cash holdings.

Laguna Beach Community Foundation Allocation



Laguna Beach Community Foundation Mission
Encourage philanthropy in the greater Laguna Beach area through its charitable organizations and residents.