

# EL CAMINO REAL CHARTER HIGH SCHOOL GENERAL ACCOUNT

## INVESTMENT POLICY STATEMENT

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### A. DEFINITIONS

Asset Allocation – The division of the total portfolio into different percentages by asset class.

Asset Manager – Any banking or financial institution engaged by the Trust for the purpose of managing the investment, sale and liquidation of assets of the general account.

Authorized Officer – As to ECRA, the Chief Business Officer of ECRA or any designee of the Chief Business Officer of ECRA. As to the Trust, the Executive Director of the Trust or any designee of the Executive Director.

Board – Board of Directors of ECRA.

Custodian – A financial institution that provides safekeeping of securities, transaction processing, and/or portfolio reporting services.

ECRA – El Camino Real Alliance, a California nonprofit public benefit corporation that commenced operation in August 2011 of El Camino Real Charter High School.

Executive Director – Chief Executive Officer of ECRA or any designee of the Chief Executive Officer of ECRA.

Fixed Income Securities – Investment instruments that promise to pay a future return set in advance, including bonds (which usually pay a fixed coupon interest rate every six months), mortgage securities, and guaranteed investment contracts (GICs).

Investment Consultant – Assists in developing an investment policy, asset allocation strategy and investment manager structure. The Investment Consultant will act as a fiduciary with regard to oversight of the general account and will maintain investment discretion within the guidelines of this Policy.

School – El Camino Real Charter High School, a California public charter school under a conversion charter approved by Los Angeles Unified School District.

Trust – El Camino Real Charter High School General Account Trust as a common law trust for the purpose of holding assets solely for the general purposes of the School according to the Trust Agreement dated June 1, 2015.

## B. SCOPE

This Investment Policy Statement (“IPS” or “Policy”) applies to the investment activities of ECRA in carrying out the investment programs of the general account of the School. Its purpose is to provide a clear understanding of the objectives, goals, risk tolerance, and investment guidelines established for the portfolio and the Trust.

## C. STRUCTURE

The Board is responsible for creation of, approval of, and updates to the Investment Policy Statement.

The Chief Business Officer is designated to advise the Board on issues related to the IPS including responsibility to review the Policy annually for appropriateness and completeness while ascertaining the need for updates and monitoring the Trust for compliance with the Policy.

A copy of this Investment Policy Statement shall be given to each firm retained to provide investment services to the Trust, and each such firm shall acknowledge in writing receipt of the document and acceptance of its content.

## D. INVESTMENT OBJECTIVES

The long-term investment objective of the Trust is to serve the operational needs of the School. The goal of the Trust is to use both active and passive management strategies to invest in funds and individual securities.

The Trust will seek to achieve a balance between income and growth while preserving capital. Each investment transaction shall seek to avoid losses from securities defaults or erosion of market value. Fixed income securities will be primary in providing income while mitigating risk. Duration and credit risk will be monitored amongst fixed income investments. Equity and alternative investments will provide opportunity for income enhancement and growth.

Liquidity concerns will be addressed such that the investment portfolio shall maintain sufficient liquidity to meet all cash requirements reasonably anticipated over a 36 month period.

The portfolio shall be designed to provide an appropriate level of income and growth given the economic environment and anticipated liquidity needs when each investment is made. Fixed income asset classes under consideration are stable value, investment grade and U.S. Treasury bonds, high quality core bond, and structured credit. Equity of a defensive or value style orientation can provide an illiquidity premium over the fixed income investments. Alternative investments that provide alpha over short duration Treasuries may be included. Overall the Trust portfolio is expected to have a level of risk on par with a balanced fund of high-quality bonds and defensive equities. The portfolio will consider the Trust's investment risk and liquidity needs and costs. Recognizing that occasional losses due to market volatility are inevitable, each investment must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been achieved.

#### E. PERFORMANCE MEASUREMENTS

Performance measures comparing investments in various asset classes to their relevant benchmark should be provided at regular intervals. The Chief Business Officer shall review the specific benchmarks relative to the asset classes and asset allocation at least annually but preferably quarterly and revise as needed. The fund's annualized returns will be reviewed quarterly and compared to established and appropriate benchmarks. In consideration of overall long-term performance targets, any significant variances between benchmarks and actual manager or asset class performance will be assessed. Appropriate modifications to specific investments will be executed as deemed necessary.

#### F. INVESTMENT AND FIDUCIARY STANDARDS

A prudent expert standard requires the assessment of prudence expected from a professional investment manager to an individual investment with reference solely to its own characteristics rather than to its relationship to the entire portfolio. This standard shall be applied by the Chief Business Officer and in the contexts of oversight and administration of the overall portfolio.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.

Any person or firm retained for purposes of investing or making recommendations for the investment or monitoring of the Trust's assets will be held to the higher standard of a prudent expert. Such person or firm will exercise the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.

Pursuant to this investment policy, the Chief Business Officer shall refrain from personal business activities that conflict with proper execution of the investment program or impairs the Chief Business Officer's ability to make impartial investment decisions. Any material financial interests that may be related to the performance of the Trust's investment portfolio shall be disclosed promptly to the Board. Any revenue sharing or commissions between the aforementioned are prohibited.

The Chief Business Officer may choose to utilize an Investment Consultant other than the Asset Manager to assist in strategic investment planning of the Trust. This includes providing assistance in maintaining the investment policy, asset allocation strategy and Investment Manager structure. The Investment Consultant will act as a fiduciary with regard to the oversight of Trust assets and will maintain investment discretion as to asset allocation and manager selection within the guidelines of this Policy. The Chief Business Officer may utilize an Asset Manager to invest the assets of the Trust. The Asset Manager should feel free to recommend appropriate changes to the investment policy to the Chief Business Officer and/or Investment Consultant for further consideration. The Asset Manager will act as a fiduciary with regard to the management of the Trust assets.

To the extent reasonably feasible, the following are general guidelines the Chief Business Officer will follow for the selection of the Asset Manager: 1. Utilize a competitive process for selection when feasible. 2. State the expected responsibilities of the Asset Manager in writing. 3. Determine the criteria to be used for the selection process. Chief Business Officer may select a discretionary Investment Consultant to execute the Asset Manager due diligence and selection process.

The Chief Business Officer (or Investment Consultant) may terminate an Asset Manager at any time for any reason, including, but not limited to, the following: 1. Qualitative changes – personnel changes or other organizational issues of the firm; 2. Quantitative changes – underperformance relative to investment objectives and style deviations; 3. Policy issues – violation of investment policies or legal issues; and 4. Communication – failure to adhere to reporting requirements.

The Chief Business Officer, Investment Consultant and Asset Manager, in performing their investment duties, shall comply with fiduciary standards. In case of conflict with any law authorizing investments, investment and fiduciary standards, the law shall prevail.

Such investment duties shall be discharged with respect to the Trust solely in the interests of the School. The investment process shall be mindful of defraying reasonable expenses of administering the Trust. By adhering to the Prudent Expert standard, attention will be made to diversification of Trust assets so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

## G. PERMITTED INVESTMENTS

The Chief Business Officer shall be authorized to invest and reinvest Trust assets in any Permitted Investment provided by the Trust Agreement, provided such investments are consistent with this policy. If the Trust has investments that either exceed the applicable limit or do not satisfy the applicable investment standard, such excess or investment not in compliance with the policy may be continued until such time as it is economically feasible to dispose of such investment. However, no additional investment may be made in the investment category which exceeds the applicable limit.

Listed below are investments authorized by the Chief Business Officer and Asset Managers:

- Cash and Cash Equivalents (including all money market instruments with a maturity of one year or less)
- Treasury Securities, Agencies, Mortgage-Backed Securities, Asset Backed Securities,
- Mutual Funds,

- Exchange Traded Funds,
- Interval Funds,
- Equity Investments, and
- Corporate Bonds (predominately investment grade rated securities with an overall average credit rating of BBB- or better).

## H. MATURITY AND LIQUIDITY

The investment portfolio shall be constructed to provide adequate liquidity and preservation of capital with a conservative level of return for payment of general obligations of the School as they come due. Anticipated cash flow requirements shall be determined by the Board on a periodic basis.

## I. PORTFOLIO COMPOSITION

The Asset Manager will utilize the following investment guidelines and limits on security issues, issuers, and maturities. The purpose of strategic asset allocation is to provide an optimal mix of investments that has the potential to produce desired returns, at appropriate levels of risk, with reasonable costs, such that asset cash flows will adequately meet current and future liabilities. Recommended target allocations for each asset class (within appropriate allocation ranges for each class of investment) are as follows:

Asset Class	Target	Allowable Range
U.S. Equity	20	10-30
Non-U.S. Equity	5	0-15
Fixed Income	70	50-90
Alternatives	5	0-15
Cash	0	0-20

**Equities** –These investments are the main drivers of growth and return in the portfolio. Diversification among stock investments should be achieved globally (US and international), across capitalization levels (large, mid, small), through investment styles (value and growth), and amongst managers.

**Fixed Income** –

Fixed income investments will seek a high current income consistent with the preservation of capital. It will target this through a diversified core bond portfolio of high-quality securities. Allocations are primarily earmarked for core bond sectors (U.S. Treasuries, investment-grade corporate credit and securitized debt). However, the Asset Manager is allowed the flexibility to invest in non-core bond sectors such as high yield corporate credit, bank loans, emerging market debt, and Treasury Inflation-Protected Securities (TIPS).

Alternative Investments –These investments should afford volatility dampening and diversification in the overall portfolio, while providing the opportunity for uncorrelated returns. Alternative investment strategies include, but are not limited to, investment vehicles with the following objectives: market-neutral, absolute return, global macro, long/short, commodities, managed futures, arbitrage, REITS, and credit funds.

Cash and Cash Equivalents – Cash is maintained to provide liquidity for periodic planned expenditures of the School. It will not be held as a strategic investment but will be allowed to build up within the asset classes the Asset Manager normally invests. Generally, levels of cash will be held at the discretion of the Asset Manager during times of market uncertainty.

Once a target asset allocation has been established, the Chief Business Officer will review the portfolio's asset allocations at least annually to ensure the average allocation over time is within the target allocation limits established. The review will assess the need for revisions to the allocations, or whether a rebalance back to the target allocation is necessary. Chief Business Officer may allow Investment Consultant to maintain discretion for rebalancing within the allowable guidelines.

## J. RISK AND DIVERSIFICATION

Acceptable risk levels shall be consistent with investment return objectives for the Trust. The Chief Business Officer has determined that risk tolerance shall be based on long-term horizons covering a full “market cycle” (120 months). Prevailing theory and historical data indicate the positive relationship between the level of risk assumed and the level of return that can be expected in an investment program. Decisions relating to the acceptable risk exposures of the Trust portfolio will not be made without consideration of the intended purpose for the Trust assets. Factors to be considered include historic and forecasted capital market assumptions, ECRA's evolving tolerance for risk, time horizons and the liquidity requirements of the Trust.

Investment guidelines and regular monitoring provide controls for identifying and limiting risk of loss from concentration of assets invested in a single issuer or highly correlated asset classes. Risk and diversification strategies shall be reviewed and revised, if necessary, on a regular periodic basis, not less than annually. This review will be within the context of prevailing and projected market conditions, as well as evolving needs of the Trust. In order to improve the long-term return potential, assets in the Trust shall be diversified among equities, fixed income, alternatives and other securities to minimize overall portfolio risk within a level consistent with the target expected return.

## K. SECURITY TURNOVER

Recognizing the importance of providing flexibility to the Asset Manager to adjust the asset mix in changing market conditions, there shall be no specific limitation regarding asset turnover. However, efforts to minimize turnover shall be made in order to control costs consistent with risk parameters.

## L. INTERNAL CONTROLS

The Chief Business Officer shall establish and monitor a set of written internal controls designed to protect Trust assets and ensure proper accounting and reporting of the securities transactions. The controls shall be reviewed by independent certified public accountants as part of any financial audit periodically required. The internal controls should be designed to prevent losses of funds which might arise from fraud, error, misrepresentation by third parties, or imprudent actions by ECRA administrators or employees.

## M. REPORTING

The custodian shall provide the Chief Business Officer monthly statements that include a detailed description of:

- a. Holdings by asset class (valued at both market and cost);
- b. Individual asset holdings (valued at both market and cost);
- c. Asset purchases and divestments;
- d. Investment income (gross and net of fees);
- e. Trust deposits and withdrawals;
- f. Expenses paid on behalf of the Trust; and,
- g. Commission expenses incurred, listed by broker.

The Investment Consultant may provide a quarterly performance review that will include aggregate holdings in each asset class, time-weighted returns and investment performance compared to appropriate benchmarks.

The Chief Business Officer may meet at least quarterly with the Investment Consultant to review the investment performance of the Trust.

The Asset Manager shall keep the Chief Business Officer and the Investment Consultant apprised of any material changes including, but not limited to, the following areas: ownership, organizational structure, financial condition, senior staffing changes, investment outlook, and investment strategy and asset allocation.