

**NAVIGATOR SCHOOLS
INVESTMENT BOARD POLICY**

Board Policy # _____

Adopted: August 29, 2023, Gilroy, California

Summary

Navigator Schools may have “excess” cash, i.e., balances in excess of immediate working capital needs and/or cash gifts that are earmarked for future use. Such excess cash balances (“Funds”) shall be subject to this Investment Policy and shall be invested conservatively to generate a reasonable return over time. Asset allocation criteria are subject to adjustment by the Board of Directors of Navigator Schools (the “Board”) upon market conditions and changing investment strategies. Other monies considered to be working capital and not approved for such transfer will be maintained in insured bank accounts (preferably interest-bearing) up to the FDIC insurable amount and/or other cash equivalents that are the unencumbered property of Navigator Schools as defined herein.

Purpose

The purpose of this policy is to set forth the standards and guidelines governing the investment and management of Navigator Schools financial assets in compliance with donor, state, and federal laws and regulations, if any. This policy governs the investment of two groups of funds: the long-term/endowment pool and the short-term/operating cash pool. Because each pool has a different objective, this investment policy addresses them separately. This policy also defines the responsibilities of the governing board and any other party involved in managing Navigator Schools investments; and identifies or provides permissible investments, target asset allocations, and diversification requirements.

Basic Premise

The basic premise of the Funds is to provide ongoing financial support for Navigator Schools educational initiatives and unrestricted needs. The primary investment objectives are capital preservation, income, and attainment of consistent investment performance comparable to general market indices.

An independent, professional investment manager will manage the Funds. The investment manager must be able to serve as a fiduciary to Navigator Schools. Regular quarterly reporting by the investment manager is expected. Selection of the investment manager is based on bids submitted by at least three firms. Investment managers shall certify that they maintain policies and practices that affirmatively promote equal employment opportunities for women and for persons of all races, national origins, religions, and with disabling conditions. Allocation of Funds to more than one investment manager is possible.

Annually the Board shall review this policy and the investment manager’s performance.

Investment Objectives

The primary short-term financial objectives of the Funds are:

1. To earn the highest possible yield consistent with a prudent level of risk. The Funds primary interests are oriented towards the preservation of capital, income, and safety.
2. To maintain the purchasing power of the Fund's assets in real terms.
3. To create a stream of investment yields to ensure the Fund has continued growth.
4. To maintain sufficient liquidity to meet Navigator Schools needs.

General Guidelines and Objectives for Investments

These investment guidelines are adopted to ensure that:

1. There is a clear understanding among fiduciaries, Board members, and investment managers of the standards and guidelines to be followed in the handling of the Funds.
2. Navigator Schools and all other fiduciaries have suitable criteria in place to measure and evaluate the performance and suitability of the investments.

Performance objectives shall be pursued through the implementation of an investment program of reasonable risk exposure designed to achieve consistent results, with a strong emphasis on the preservation of capital. Asset allocation percentage limits are intended as guidelines rather than specific goals. Investment managers are expected to exercise reasonable judgment and discretion in interpreting and applying these guidelines.

Investment Pools

The primary purpose and objective of the long-term/endowment investment pool is to provide a sustainable maximum return consistent with prudent risk levels. The long-term/endowment pool provides a reliable source of funds for current and future use. It is held for Navigator Schools' exclusive use, benefit, and purpose.

The short-term investment/operating cash pool provides liquid assets to meet operating requirements. Funds in this pool consist of net assets with donor restrictions, net assets without donor restrictions, board-designated net assets, and agency funds.

Responsibilities and Delegation of Authority

The Board has ultimate responsibility for the prudent management of Navigator Schools investment assets. In carrying out its responsibilities, the Board may delegate authority for the oversight of investments to the Finance Committee. The Board or Finance Committee and their designees will act in accordance with this policy and all applicable laws and regulations. The Committee will review this policy annually and make recommendations to the Board for any necessary revisions to support Navigator Schools' investment objectives. All participants in the investment process shall act responsibly and in a manner that is consistent with their roles as fiduciaries of Navigator Schools.

It is the responsibility of the Finance Committee to review and approve this policy, which addresses the following:

- Asset allocation targets.
- Investment guidelines relating to eligible investments, diversification and concentration restrictions, and performance objectives.
- Acceptable risk levels.
- External investment manager, consultants, bank custodian(s), and/or other experts, as needed, to manage the investments in accordance with this policy.
- Monitor the external investment managers and other experts' adherence to this policy and evaluate the performance of the portfolio using the objectives and guidelines stated herein.
- Evaluate and recommend changes to the asset allocation targets and ranges, as necessary, to achieve the investment performance goals.

It is the responsibility of the external investment manager to

- Advise Navigator Schools when they become aware of a downgrade that, had it been in effect at the time of purchase, would have prevented the investment from being permitted under the above constraints.
- Screen and evaluate investments based on environmental, social, and governance factors to ensure alignment with Navigator Schools' mission.
- Invest the assets placed in their care in accordance with this policy.
- Report monthly investment performance results to management.
- Communicate any major changes in the economic outlook that may impact the investment strategy to the investment committee chair and management.
- Present annually to the Board of Directors.
- Agree to a plan for the disposition of the investment.

Prohibited Investments

Additionally, the investment manager is prohibited from investing in the following, unless specifically authorized by the Investment or Executive Committee in a separate written agreement:

- Securities purchased on margin or via short sales.
- Securities of an investment manager, its parent, or its affiliates
- Futures, forwards, and options.
- Illiquid securities, such as private placements or private investment funds.
- Commodities or commodity contracts.
- Direct investment in real estate investment trusts (REIT) or real estate partnerships.
- Non-marketable securities or those for which no public market exists (except for time deposits, repurchase agreements, and money market funds).
- Collateralized Mortgage Obligations (CMO) and other Collateralized Debt Obligations (CDO).
- Unrated securities, except for money market funds, repurchase agreements, and time deposits.
- Securities issued by companies that engage in activities deemed counter to Navigator Schools's mission. Refer to 'Schedule A' for a list of restrictions.

Long-term Investment/Endowment Pool

The primary purpose and objective of the long-term/endowment investment pool is to provide a sustainable maximum return consistent with prudent risk levels.

The long-term/endowment investment pool aims to provide real returns of 4.0%-6.0% above inflation over long periods.

Investment Guidelines

Investment managers are expected to adhere to the following guidelines unless otherwise noted in an addendum to this policy or in a separate written agreement with the manager. General guidelines and cash equivalents guidelines outlined below apply to all investment managers.

Approved Investments

Permitted investments include:

- Global equities. Equity investments in U.S. and international companies that are typically among the most liquid and well-researched opportunities, including dividend-oriented equity securities such as Preferred Stocks, Real Estate Investment Trusts, and Master Limited Partnerships so long as those securities do not create Unrelated Business Taxable Income (UBTI).
- Hedge Funds/absolute return. Intended to supplement traditional equity portfolios, hedge funds generally combine long positions with short positions to reduce overall equity market exposure.
- Publicly Traded Real assets. Investments include those assets for which the primary purpose is to provide a potential hedge against inflationary pressures and to achieve overall portfolio diversification.
- Equity investment in any single issue at the time of purchase shall not exceed 10% of the total value of the combined equity portfolio.
- No investment shall be made knowingly in private placements, options, commodities, real estate, or mortgages. Margin, short sales, and venture capital transactions are not to be used. No investment shall be made which would constitute a “prohibited transaction” under the “prudent man rule.”
- Common stocks suitable for investment must be of companies listed on a nationally recognized exchange in the United States and/or outside the United States, or if traded over the counter, must be of companies that have demonstrated a record of marketability at the time of purchase.
- Non-U.S. equities are permitted up to 55% of total equities. These investments will be in companies with a market capitalization of at least \$ 1 billion. Up to 15% of total equities are permitted in securities of companies based in qualified developing economies.
- Fixed income and cash. The goal for fixed-income assets is to provide diversification for the total portfolio, reduce the overall volatility of the portfolio, and generate periodic, predictable cash flows for use to support annual spending needs.
 - Global corporate and government bonds
 - High-quality mortgage-backed securities
 - High-quality asset-backed securities
 - Cash equivalents.

Asset Allocation Targets for Long-Term Investments

Asset Category	Target	Range
Global equities	40%	30%–60%
Hedge funds/absolute return	5%	0%–15%
Publicly Traded Real Assets	5%	0%–10%
Fixed income and cash	50%	30%–60%

Short-term Investment/Operating Cash Pool

The primary investment purpose and objectives of the short-term/operating cash pool are to preserve capital, maintain necessary liquidity, and earn income.

Approved Investments

Permitted investments include:

- Certificate of deposit - Negotiable certificates of deposit, money market funds, bankers' acceptances, and floating rate notes issued by or time deposits placed with banks.
- Money market funds with a Moody's rating of AAA or Standard and Poor's rating of AAA.
- United States Treasury bills, notes, bonds, zero coupon bonds, Separate Trading of Registered Interest and Principal of Securities (STRIPS), and Treasury Inflation-Protected Securities (TIPS).
- Securities issued by federally related institutions (with full faith and credit backing by the U.S. government).
- Commercial paper with minimum ratings at the time of purchase of A-1 (S&P) or P-1 (Moody's) - issued by large companies domiciled in the U.S. No more than 10% of the Navigator Schools Fixed Income Investment Assets shall be invested in the commercial paper of any single issuer.
 - Corporate notes and bonds if rated by at least two of the three rating agencies, and those ratings at the date of purchase are A3 by Moody's, A1 by Standard and Poor's, and A by Fitch.
 - No more than 5% of Navigator Schools Fixed-Income Investment Assets shall be invested in the debt of any single issuer. However, up to 15% of bonds can be invested in lower-rated bonds (BB and below). The bond portfolio may invest up to 25% of assets in bonds of corporations and government entities outside the United States.
 - The total bond portfolio will have an average duration of no more than six years and an average life of no more than eight years.
- Repurchase agreements secured by the U.S. government and federal agency obligations, which all have market values of at least 102% of the amount of the repurchase agreement.

Asset Allocation Targets for Short-Term Investments

Asset Category	Target	Range
Cash and cash equivalents	10%	0%–100%
Fixed income	90%	0%–90%

Guideline for Transactions

Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means the best realized net price.

Endowments, when created, shall be considered Funds. Conversion shall occur within 24 hours of receipt.

Monitoring of Objective and Results

- All objectives and policies are in effect until modified by the Board, which will review them at least annually for their continued appropriateness.
- If at any time any manager believes that any policy guideline inhibits their investment performance, it is their responsibility to communicate this view to the Board.
- The total fund will be monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and investment risk.
- Investment managers will report the following information to Navigator Schools quarterly: market value of the Funds under management, interest income (if any), dividend income (if any), gains/losses (net of all commissions), and purchases and sales.
- Regular communication concerning investment strategy and outlook is expected.
- The investment manager shall meet with the Board (or its designee) at least annually and more often as appropriate.
- The Board will annually review the related services provided to Navigator Schools, including custody services, performance evaluation, and consulting.

Allocation of Investment Income or Loss

From time to time, Navigator Schools may receive certain gifts with temporary restrictions. Based on their evaluation of the fulfillment of these restrictions, staff may recommend that such gifts be considered Funds. Additionally, permanently restricted gifts must be considered Funds. The books and records of Navigator Schools shall reflect a reasonable and fair allocation of the investment income or loss to these funds.

Unless restricted as described above, interest income from the fixed-income investments shall be reinvested or transferred from the Funds and used to fund Navigator Schools operations. Cashflow generated by equity investments shall remain in Funds to maximize market value.

Liquidation of Funds

From time to time, it may be necessary to liquidate a portion of Funds to cover certain expenditures. The forecasting of such events shall be integrated into the budgeting process. Any such liquidation requires Board approval.

Appendix A:

Restricted Investments

Objective: The list below specifies the investments Navigator Schools is restricted against purchasing when allocating capital towards the markets.

- Alcohol
- Firearms
- Tobacco

Any categories that should be added to the list will require approval by the Navigator Schools board.