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Saddleback College Foundation
GENERAL FUND EXECUTIVE SUMMARY
June 2013

Name: Saddleback College General Fund

Tax ID: 33-0390547

Account Information: Total Market Value as of 12/31/12: $1,900,000

Primary Objective: Primary emphasis on income with capital preservation and a secondary focus on capital growth

Target Rate of Return: Absolute return of 4%

Time Horizon: 3 years

Asset Allocation: Asset Class
U.S. Equities
International Equities
Fixed Income
Liquid Alternatives
Alternatives
Real Assets

Preferred
25%
5%
40%
15%
15%
0%

Maximum
45%
25%
90%
30%
20%
10%

Rebalancing Procedures: Portfolio is rebalanced when the portfolio exceeds the maximum constraints (reviewed quarterly), or at the discretion of the Investment Advisor

Cash Limits: The General Fund has zero minimum liquidity needs (cash is handled separately).

Restrictions: Maximum Average Bond Maturity: 10 years
Maximum Individual Bond Maturity: 30 years

Other investment considerations in the management of this portfolio are: Annual staff recommendation on cash reserves for Restricted, Unrestricted & Trust accounts.

Meeting Frequency: Quarterly
INVESTMENT POLICY DISCUSSION

Adherence to the UPMIFA

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was originally promulgated in 1972 with revisions in 2004 and provides guidance to institutional nonprofits of investment authority, permits delegation of authority to independent financial advisors, and authorizes the expenditure of appreciation of investment funds.

The Uniform Prudent Investor Act ("UPIA") was approved for use in all states at the 1994 annual Conference of Commissioners on Uniform State Law and by the American Bar Association in 1995. The Act is applicable to all trusts (including irrevocable trusts, by-pass trusts, QTIPs, ILITs, CRTs, QPRTs, QDTs, and GRTs) and sets forth appropriate practices for the management of trust assets. Noncompliance with these rules can expose a trustee to significant personal liability.

Key Provisions of the UPMIFA Include:

❖ No investment is inherently prudent or imprudent, except in how its inclusion or exclusion impacts the portfolio as a whole.

❖ Trustees are expected to use all reasonably available strategies to improve the risk-reward relationship of the portfolio.

❖ Under most circumstances, the assets of the trust must be diversified.

❖ Trustees are obliged to spread portfolio investments across asset classes to enhance performance and reduce risk.

❖ The possible effect of inflation must be considered as part of the investment strategy. As a result, use of equities is encouraged to allow the possibility that the portfolio's growth will outpace inflation.

❖ Fiduciaries have a duty to either demonstrate investment skill in managing trust assets or to delegate investment management to another, more qualified party.

Definitions

1. "Saddleback Foundation Finance Committee" shall refer to the decision making body established to administer the portfolio as specified by applicable ordinance.

2. "Investment Advisor" shall mean any individual, or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search and performance monitoring.
3. “Fiduciary” shall mean any individual or group of individuals that exercise discretionary authority or control over the fund management or any authority or control over management, disposition or administration of portfolio assets.

This Investment Policy Statement:

- Establishes the Saddleback Foundation Finance Committee's expectations, objectives and guidelines in the investment of the Portfolio's assets.

- Creates 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 Saddleback Foundation Finance Committee, including:
  - describing an appropriate risk posture for the investment of the Portfolio
  - specifying the target asset allocation policy
  - establishing investment guidelines regarding the selection of Investment Advisors, permissible securities and diversification of assets
  - specifying the criteria for evaluating the performance of the Portfolio's assets

- Encourages effective communication between the Investment Advisor(s) and the Saddleback Foundation Finance Committee.

This IPS is intended to be a summary of an investment philosophy and the procedures that provide guidance for the Saddleback Foundation Finance Committee. The investment policies described in this IPS should be dynamic. These policies should reflect the Saddleback Foundation Finance Committee's current status and philosophy regarding the investment of the Portfolio. These polices will be reviewed and revised periodically to ensure they adequately reflect any changes related to the Portfolio, to the Saddleback Foundation Finance Committee or the capital markets.

It is understood that there can be no guarantee about the attainment of the goals or investment objectives outlined herein.

INTRODUCTION

One of the important purposes of this Investment Policy Statement (IPS) is to establish a clear understanding as to the investment goals, objectives and management policies applicable to the Saddleback College Foundation’s investment portfolio (“Portfolio”).
OVERVIEW COMMENTARY

Investor Information:

Name:

Saddleback College Foundation General Fund
28000 Marguerite Parkway
Mission Viejo, Ca 92692
United States

Trust Tax ID: 33-0390547

Authorized Decision Makers

The Saddleback College Foundation Board of Governors shall approve the Investment Policy Statement and any future modifications. The Finance Committee will manage the Foundation assets subject to the provisions of the Investment Policy Statement.

A majority of the Finance Committee must approve any decisions.

Assets to be Considered Under This IPS:

The investments being managed under this IPS have a current approximate value of $1,900,000.

Account Information

<table>
<thead>
<tr>
<th>Acct. Title</th>
<th>Mkt. Value as of 12/31/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saddleback College Foundation General Investment</td>
<td>$1,900,000</td>
</tr>
</tbody>
</table>

Investment Advisor:

James A. Diepenbrock
Graystone Consulting
400 Capitol Mall, Suite 1900
Sacramento, CA 95814
United States
916-567-2045
james.diepenbrock@msgraystone.com
DELEGATION OF AUTHORITY

The governing body of Saddleback College is the Board of Governors who are fiduciaries, and are ultimately responsible for directing and monitoring the investment management of Fund assets. As such, the Board of Governors is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

*The Saddleback Foundation Finance Committee*

The Board of Governors has delegated the direct management and fiduciary oversight of the investment management of all investment assets to the Finance Committee

The Finance Committee is responsible for formulating and recommending investment policy for the Fund to the Board of Trustees. Duties include but are not limited to the following:

- Review and monitor performance of Investment Consultant in the management of Fund assets to achieve the investment objectives within the guidelines of policy.
- Monitor the asset allocation of the fund to be maintained within the guidelines of policy.
- Determine if the overall policies and objectives continue to be appropriate and reasonable and make recommendations to the Board of Governors as necessary.
- Oversight for all investment management costs are reasonable and in line with industry standards.

*The Investment Advisor*

The Investment Advisor is a Registered Investment Advisor and shall act as the investment advisor on a discretionary basis to the Saddleback Foundation Finance Committee until the Saddleback Foundation Finance Committee decides otherwise.

Investment Advisor shall be responsible for:

- Assisting in the development and periodic review of investment policy.
- Designing and implementing an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
- Advising the Saddleback Foundation Finance Committee about the selection of and the allocation of asset categories.
- Identifying specific assets and investment managers within each asset category.
- Providing “due diligence”, or research, on the Investment Manager(s)
- Monitoring the performance of all selected assets the advisor consults to.
- Recommending changes to this investment policy statement.
- Periodically reviewing the suitability of the investments for the Saddleback Foundation Finance Committee.
Investment Policy Statement for Saddleback College General Fund

- Being available to meet with the Saddleback Foundation Finance Committee at least twice each year.
- Being available at such other times within reason at the Saddleback Foundation Finance Committee’s request.
- Preparing and presenting appropriate reports.

Discretion and Title

- The Investment Advisor’s role is that of a discretionary advisor to the Finance Committee of The Saddleback College Foundation. The execution of these decisions must be within the guidelines of this Statement of Investment Policy, Objectives and Guidelines.

- The Investment Advisor shall have no authority to withdraw funds from Saddleback College Foundation’s accounts, except to cover payment of previously agreed to fees or at Investor’s specific direction.

- The Investment Advisor may not change Saddleback College Foundation’s investment policy, including the preferred asset allocation, without Saddleback Foundation Finance Committee’s prior approval.

INVESTMENT OBJECTIVES

The investment objectives addressed in this investment policy statement represent the portfolio’s overall investment objectives.

The Saddleback Foundation Finance Committee’s objective for this investment portfolio is primary emphasis income-generating investments with an additional focus on inflation protection.

The long-term objective for the assets under this policy is to achieve after fees and expenses, an absolute return of 4%.

TIME HORIZON

The Saddleback College Foundation's objectives for this portfolio are currently anticipated to continue without significant modification for a period of 3 years.

Goal of Saddleback College Foundation General Fund

The Foundation initiates and coordinates college and community fund-raising in support of Saddleback College and students. By raising funds for scholarships and other programs which directly benefit students, the Foundation is committed to increasing student success and the
excellence of education offered by Saddleback College. Guided by a group of dedicated community leaders, the Foundation strives to make higher education attainable for all in South Orange County.

The goal of the Saddleback Foundation General Fund is to prudently invest Restricted Revenue Accounts, Unrestricted Funds and Trust Funds and to support the operation of the Saddleback College Foundation. An additional goal is to distribute funds to support scholarships, and enhance instructional programs to increase student success.

TAX POLICY

Tax minimization is not a concern for this investment portfolio.

RISK TOLERANCE

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns one must accept higher risk (e.g. volatility of return).

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Portfolio is the determination of the amount of risk the Saddleback Foundation Finance Committee can tolerate.

A comfort level with investment risk influences how aggressively or conservatively a portfolio can be invested. Like a scale, risk needs to be balanced with the need for returns to achieve the investment goals. The Saddleback Foundation Finance Committee desires long-term investment performance sufficient to meet the objectives. The Saddleback Foundation Finance Committee understands that to achieve such performance the portfolio may experience periods of decline. The Saddleback Foundation Finance Committee further understands that in a severe market, the potential recovery period could be extensive.

Although the Saddleback Foundation Finance Committee prefers to limit the portfolio’s volatility, they are more concerned with preserving the value of their account than maximizing capital growth, and can tolerate declines in value through a market cycle.
ASSET ALLOCATION

Academic research offers considerable evidence that the asset allocation decision far outweighs security selection and market timing in its impact on portfolio variability and performance. After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risk and rewards of market behavior, the following asset classes were selected to achieve the objectives of Saddleback College Foundation’s portfolio.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Preferred</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities</td>
<td>25%</td>
<td>45%</td>
</tr>
<tr>
<td>International Equities</td>
<td>5%</td>
<td>25%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>40%</td>
<td>90%</td>
</tr>
<tr>
<td>Liquid Alternatives</td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>0%</td>
<td>10%</td>
</tr>
</tbody>
</table>

**U.S. Equities**
All publicly traded equities listed on any U.S. exchange, including REITS and convertible securities.

**Ex-U.S. Equities**
All publicly traded equity securities in developed and emerging markets including REITS and convertible securities.

**Fixed Income**
All publicly traded global fixed income instruments including high yield.

**Liquid Alternative Investments**
Typically mutual funds or exchange traded funds with daily liquidity designed to reduce volatility and increase the diversification of the portfolio.

**Alternative Investments**
Global hedge funds designed to designed to reduce the portfolio volatility and increase the diversification of the portfolio. These funds may have liquidity constraints.

**Real Assets**
Private real estate, commodities, natural resources and inflation-linked assets.

**Portfolio Returns and Volatility**

The Saddleback Foundation Finance Committee's willingness to accept risk and their expectation for investment growth have a direct bearing on the rate of return objective for this portfolio.
Investment Policy Statement for Saddleback College General Fund

It should be recognized that the portfolio will invest in a variety of securities and that the actual weighting of these securities can and will vary. It is also important to note that future returns of the securities with the portfolio and the portfolio itself can be expected to vary from the historical returns.

*Updated Allocations*

Over time, it may be desirable to amend the basic allocation. When such changes are made, updates 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 approved allocation. To remain consistent with the asset allocation guidelines established by this Investment Policy Statement, the Investment Advisor shall be expected to periodically review the portfolio and each asset class in which the Portfolio is invested.

Generally, this portfolio should be rebalanced periodically as follows: when the portfolio exceeds the minimum or maximum constraints (reviewed quarterly). Rebalancing is expected to occur any time there is a significant cash flow.

The Investment Advisor has the authority to rebalance the portfolio within the parameters of the Investment Policy Statement as needed.

*Adjustment in the Asset Allocation Ranges*

Modifications to the approved allocation may be needed from time to time for a variety of reasons. When such a change to the approved allocation needs to occur, it shall only be made with the concurrence of the Saddleback Foundation Finance Committee.
INVESTMENT PHILOSOPHY

The basic tenets under which this Policy will be managed include the following:

1. Modern Portfolio Theory, as recognized by the 1990 Nobel Prize, will be the philosophical foundation for how the portfolio will be structured and how subsequent decisions will be made. The underlying concepts of Modern Portfolio Theory include:
   - Investors are risk averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns.
   - Markets are efficient. It is virtually impossible to anticipate the future direction of the market as a whole or of any individual security. It is, therefore, unlikely that any portfolio will succeed in consistently “beating the market.”
   - The design of the portfolio as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes (stocks, bonds, cash, etc.) will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long term (preferably longer than ten years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface.
   - For a given risk level, an optimal combination of asset classes will seek to maximize returns. Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole.
   - Portfolio risk may be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected. (Correlation is the statistical term for the extent to which two asset classes move in tandem or opposition to one another.)

2. Investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.

3. Equities have historically offered the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).

4. Picking individual securities and timing the purchase or sale of investments in the attempt to “beat the market” are highly unlikely to increase long-term investment returns; they also can significantly increase portfolio operating costs. Such practices are, therefore, to be avoided.
Given these tenets, the underlying approach to managing this Policy shall be to optimize the risk-return relationship appropriate to the Investor's needs and goals. The Policy will be diversified globally employing a variety of asset classes. Mutual funds or managed portfolios will be employed to implement the portfolio and the chosen asset classes will be periodically re-balanced to maintain a more consistent risk/reward profile. In managing investment assets, every advisor has a unique style.

FREQUENCY OF IPS REVIEW

The Saddleback Foundation Finance Committee recognizes that all investments go through cycles and therefore there will be periods of time in which the investment objectives are not met or when specific managers fail to meet their expected performance expectations. The Saddleback Foundation Finance Committee accepts the principle that, in the absence of specific circumstances requiring immediate action, patience and a longer-term perspective will be employed when evaluating investment performance.

The advisor and Saddleback Foundation Finance Committee will meet at least annually to review and update this IPS.

LIQUIDITY

Investor's liquidity requirements are: no minimum liquidity needs (cash is handled separately). Staff will advise the Saddleback Foundation Finance Committee if cash reserves are below agreed levels and funds will be transferred from the investment portfolio.

DIVERSIFICATION AND INVESTMENT CONSTRAINTS

*Portfolio Limitations and Restrictions*

Maximum average bond maturities: 10 year(s).

Maximum individual bond maturities: 30 year(s).

Other investment considerations in the management of this portfolio are: Annual staff recommendation on cash reserves for accounts Restricted, Unrestricted & Trust.

ALTERNATIVE INVESTMENTS

*Definition:*

Alternative Investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies and, in many cases, organized in low or no tax jurisdictions. The managers of these investments generally are allowed to operate with greater flexibility than most traditional Investment Advisors and their compensation usually includes substantial performance incentives.
Objective:

Investment in alternatives may be considered by this organization within the context of an overall investment plan. The objective of such investments will be to seek to diversify the portfolio, complementing traditional equity and fixed-income investments and improving the overall performance consistency of the portfolio. It is acknowledged that there is no guarantee that this objective will be realized.

Transparency and Liquidity:

It is acknowledged that these investments are less transparent than traditional investments and that liquidity in such investments is usually significantly limited. Liquidity constraints, including lockup provisions and redemption or withdrawal fees, must be taken into consideration when making allocations to such investments.

SOCIALLY RESPONSIBLE INVESTING

The following best describes the Saddleback Foundation Finance Committee's attitude toward socially responsible investing: we do not consider social issues in our investment process.

INVESTMENT MONITORING AND CONTROL PROCEDURES

Benchmarks

The following benchmarks will be used to evaluate performance:

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<td>US Stocks</td>
<td>S&amp;P 500</td>
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<td>International Equity</td>
<td>MSCI EAFE Net</td>
</tr>
<tr>
<td>US Bonds</td>
<td>Barclays Aggregate</td>
</tr>
<tr>
<td>Liquid Alternatives</td>
<td>Barclays Aggregate</td>
</tr>
<tr>
<td>Alternatives</td>
<td>HFRI Fund of Funds</td>
</tr>
</tbody>
</table>

Individual Managers or funds will be measured against a style specific benchmark.
ADOPTION

Adopted by the below signed:

Date: _______________________________

Saddleback Foundation Finance Committee:

_______________________________

Date: _______________________________

Saddleback Foundation Director:

_______________________________