

# **San Luis Obispo Railroad Museum**

## **Investment Policy**

Adopted December 13, 2016 (Resolution No. 2016-5)

### **1. Investment objective**

The Museum's overall investment objective is to maximize the return on invested assets while minimizing risk and expenses. This is done through prudent planning and investing, as well as through the maintenance of a diversified portfolio.

### **2. General provisions**

- 2.1 All transactions shall be for the sole benefit of the Museum.
- 2.2 The Directors shall consider updating this Investment Policy yearly.
- 2.3 The Directors shall conduct an annual review of the Museum's investment assets to verify the existence and marketability of the underlying assets or satisfy themselves that such a review has been conducted in connection with an independent audit (if any) of the Museum's financial statements.
- 2.4 Any investment that is not expressly permitted under this Policy must be formally reviewed and approved by the Directors.
- 2.5 The Directors will endeavor to operate the Museum's investment program in compliance with all applicable state, federal and local laws and regulations concerning management of investment assets.
- 2.6 Investments shall be diversified with a view to minimizing risk.

### **3. Delegation of responsibility; reliance on experts and advisors**

- 3.1 The Board of Directors has ultimate responsibility for the investment and management of the Museum's investment assets.
- 3.2 The Board may delegate authority over the Museum's investments to a properly formed and constituted Investment Committee, being a Board Committee comprised only of directors.
- 3.3 The Board or Board Committee may hire out-side experts as investment consultants or investment managers.
- 3.4 The Board may also establish an advisory committee (which may include non-directors) to provide investment advice to the Board or to the Board Committee. Advisory committees have no authority to act for the Board, but may monitor compliance with the investment policy, recommend changes, and assist the Board or Board Committee in selecting and retaining investment managers to execute this Investment Policy.

#### **4. Responsibilities of the Board, or if authority is delegated, the investment committee**

The Board, or if authority is delegated, the Investment Committee, is charged with the responsibility of managing the investment assets of the Museum. The specific responsibilities of the Board or the Investment Committee, as applicable, include:

- 4.1 Communicating the Museum's financial needs to the Investment Managers on a timely basis.
- 4.2 Determining the Museum's risk tolerance and investment horizon and communicating these to the appropriate parties.
- 4.3 Establishing reasonable and consistent investment objectives that will direct the investment of the assets, to be reviewed by the Board on an annual basis.
- 4.4 Prudently and diligently selecting one or more qualified investment professionals, including investment manager(s), investment consultant(s), and custodian(s).
- 4.5 Regularly evaluating the performance of investment manager(s) to assure adherence to this policy and to monitor progress.
- 4.6 Developing and enacting proper control procedures, such as replacing investment manager(s) due to a fundamental change in the investment management process, or for failure to comply with established guidelines.

#### **5. Responsibilities of Investment Managers**

- 5.1 Each investment manager will invest assets placed in the manager's care in accordance with this Investment Policy.
- 5.2 Each investment manager must acknowledge in writing acceptance of responsibility as a fiduciary.
- 5.3 Each investment manager will have full discretion in making all investment decisions for the assets placed under that manager's care and, while operating within in this Investment Policy. Specific responsibilities of investment manager(s) include:
  - 5.3.1 Discretionary investment management, including decisions to buy, sell, or hold individual securities, and to alter allocation within the guidelines established in this statement.
  - 5.3.2 Reporting, on a timely basis, monthly investment performance results.
  - 5.3.3 Communicating any major changes in the economic outlook, investment strategy, or any other factors that affect implementation of the investment process.
  - 5.3.4 Informing the Board, or if authority is delegated, the Investment Committee, regarding any changes in portfolio management personnel, ownership structure, investment philosophy, etc.
  - 5.3.5 Voting proxies, if requested by the Board, or if authority is delegated, the Investment Committee, on behalf of the Museum.
  - 5.3.6 Administering the Museum's investments at reasonable cost, balanced with avoiding a compromise of quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the Museum.

## 6. Investment Guidelines

- 6.1 A copy of this Investment Policy shall be provided to all investment managers.
- 6.2 The Museum is a tax-exempt Museum as de-scribed in section 501(c)(3) of the Internal Revenue Code. This tax-exempt status should be taken into consideration when making Museum investments.
- 6.3 The Museum is expected to operate in perpetuity; therefore, a 10-year investment horizon shall be employed. Interim fluctuations should be viewed with appropriate perspective.
- 6.4 A cash account shall be maintained with a zero risk tolerance to keep cash available for anticipated expenses.
- 6.5 Transactions shall be executed at reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker.
- 6.6 Permitted investments include: cash and cash equivalents, marketable securities including equities and fixed income securities. No fixed income security shall have an equivalent credit quality below investment grade at the time of purchase, defined as:
  - BBB by Standard & Poors for straight bonds and convertibles
  - Baa3 by Moody's Investor Service for straight bonds and convertibles
  - A1 by Standard & Poors for short-term securities
  - P1 by Moody's Investor Service for short-term securities
  - AAA for money market accounts
- 6.7. The following transactions are prohibited: purchase of non-negotiable securities, derivatives, high risk or junk bonds, private placements, precious metals, commodities, short sales, any margin transactions, straddles, war-rants, options, life insurance contracts, leverage or letter stock.

## 7. Diversification

- 7.1 The Museum will maintain a reasonable diversification of investment assets between asset classes and investment categories at all times.
- 7.2 Investments in the equity securities of any one company shall not exceed 5% of the portfolio nor shall the total securities position (debt and equity) in any one company exceed 10% of the portfolio.
- 7.3 Reasonable sector allocations and diversification shall be maintained. No more than 25% of the entire portfolio may be invested in the securities of any one sector.
- 7.4 Investments within the investment portfolio shall be readily marketable.
- 7.5 The investment portfolio shall not be a blind pool; each investment must be available for review.

## 8. Asset Allocation

The asset allocation policy shall be predicated on the following factors:

- 8.1 Historical performance of capital markets adjusted for the perception of the future short- and long-term capital market performance.
- 8.2 The correlation of returns among the relevant asset classes.

- 8.3 The perception of future economic conditions, including inflation and interest rate assumptions.
- 8.4 Liquidity requirements for anticipated expenditures.
- 8.5 The relationship between the current and projected assets of the Museum and projected liabilities.
- 8.6 Rebalancing shall be done on a semi-annual basis or more frequently if deemed necessary.
- 8.7 Allocation Limits
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|----------------------------------|-----|
| Cash & Equivalents               | 15% |
| Fixed Income                     | 60% |
| Equities: Domestic Large Cap     | 40% |
| Equities: Domestic Small/Mid Cap | 25% |
| Equities: International          | 15% |

## 9. Performance

Performance objectives are to be met on a net-of-fees basis. The investment performance of each asset allocation class will be measured against index objectives for individual portfolio components. Investment performance shall be measured no less than quarterly on a net of fees basis. Performance shall be evaluated on a three to five year basis to allow for market fluctuations and volatility.