THE NATOMAS BASIN CONSERVANCY
ENDOWMENT OPERATIONS AND MAINTENANCE FUND
AND SUPPLEMENTAL ENDOWMENT FUND
INVESTMENT POLICY

I. MISSION

This policy applies to all funds held in The Natomas Basin Conservancy's ("Conservancy") Endowment Operations and Maintenance Fund and Supplemental Endowment Fund ("Endowment funds").

The goal of this policy is for the Endowment Funds to support the current operations of the Conservancy once development fees and other income are insufficient to do so. This is accomplished through a total return investment strategy and a spending policy set to maintain, or ideally increase, the purchasing power of the Endowment Funds, without putting the principal value of these funds at imprudent risk.

The level of available funds to support the Conservancy's program activity over time will be a function of:

A. ~~1.~~ An increasing body of assets as Natomas Basin Habitat Conservation Plan (NBHCP) fees are added to the existing Endowment Funds.

B. ~~2.~~ Successful investment performance using "total return" as the accepted measurement.

C. ~~3.~~ A conservative payout policy once Endowment Funds begin to be drawn on (see below III. SPENDING POLICY).

D. ~~4.~~ A "conservative" to "moderately conservative" asset allocation strategy.

II. INVESTMENT GOALS

Investment goals for the Conservancy's Endowment Funds are to:

A. ~~1.~~ Meet payout requirements of the Endowment Funds as described in the NBHCP, calculated in accordance with the NBHCP Finance Model. The Finance Model is updated ~~periodically~~ annually by the Conservancy and submitted to the City of Sacramento, the County of Sutter, the California Department of Fish and Wildlife and the U.S. Fish and Wildlife Service and is an integral part of the NBHCP.

B. ~~2.~~ Earn a total return of at least three-~~-~~to five-percent in excess of inflation as measured by the Consumer Price Index over a five-year time horizon.

C. ~~3.~~ Earn competitive returns relative to broad market indices, as well as funds with similar objectives.

Investment goals and performance are to be computed net of investment management fees.

III. SPENDING POLICY

Distributions will be made in accordance with the Board of Directors-approved Finance Model and the annually approved budget of the Conservancy.

Adopted by the Conservancy Board of Directors on September 4, 2002
Board Approved Revisions: 11/02/05, 12/06/06, 09/01/10, 09/07/11, 04/03/13 and 08/05/15.

IV. ASSET ALLOCATION STRATEGY

The general policy shall be to diversify investments so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. No more than 5% (FIVE PERCENT) shall be invested in any one common stock or debt instrument, with targets of no more than 30% (THIRTY PERCENT) in any diversified mutual fund and/or 25% (TWENTY-FIVE PERCENT) in any broad-based index mutual fund. No more than 15% (FIFTEEN PERCENT) shall be invested in hedge or hedge-like funds with a strong bias towards domestic, hedge-like instruments. Obligations of the U.S. government agencies are exempted from this concentration cap allocation. Target ranges may change from time to time with market changes and infusions of cash, but are generally as follows:

Asset Type	Allowable Range
Cash	0 – 20%
Fixed Income	30 – 60%
Equities	35 – 60%

V. INVESTMENT GUIDELINES

A. ~~1.~~ The use of commingled funds/mutual funds (including index funds) over individual common stocks is highly encouraged.

B. ~~2.~~ Equity holdings shall be readily marketable securities traded on the major stock exchanges. International equity investments of similar quality and marketability are permitted.

C. ~~3.~~ Fixed income investments shall be readily marketable securities, including debt instruments of the U.S. Government and its agencies, corporations, and foreign denominated securities, so that the target average portfolio quality is investment grade. High-yield bond mutual funds may also be used when deemed appropriate provided the average portfolio quality remains investment grade or higher.

D. ~~4.~~ Hedge funds and hedge-like funds may be used to minimize market risk and create a more stable stream of investment returns. The Conservancy strongly favors domestic, hedge-like instruments over hedge funds.

E. ~~5.~~ Short-term funds (under one year in maturity) shall be issues of high quality and marketability. For this purpose, obligations of the U.S. Treasury, federal government agencies or its equivalent are highly encouraged.

F. ~~6.~~ The following categories of investments are not permitted: venture capital funds, letter stock, and real estate properties, excepting real estate investment trusts traded on a major stock exchange, which would be an acceptable holding.

G. ~~7.~~ Prohibited transactions include: no private placements, options, using margin, borrowing, derivatives, making loans as an underwriter or buying the securities of an affiliated firm of the advisor/broker.

VI. ADMINISTRATIVE AND REVIEW PROCEDURES

A. ~~1.~~ The Conservancy's Finance Committee will review all policies, objectives and guidelines no less frequently than annually. Any proposed changes will be presented to the Board of Directors for approval.

B. ~~2.~~ The Investment Manager will keep the Conservancy informed of any significant changes in the decision-making process, investment management style or personnel within 30 days.

C. ~~3.~~ By 30-45 days following the end of each quarter, the Investment Manager will provide written reports on portfolio structure, performance and strategy.

VII. INVESTMENT RESPONSIBILITY

A. ~~1.~~ The Conservancy's Board of Directors, with the advice of its Finance Committee, is responsible for:

1. ~~(a)~~ Establishing an Investment Policy.
2. ~~(b)~~ Overseeing the investment of Endowment and Supplemental Endowment Funds assets.
3. ~~(c)~~ Setting performance objectives and monitoring performance of the Investment Manager in meeting these objectives.
4. ~~(d)~~ Reviewing the Investment Policy and making changes as required.
5. ~~(e)~~ Determining fair and reasonable compensation and fees paid from portfolio assets.

B. ~~2.~~ The Investment Manager is responsible for:

1. ~~(a)~~ Implementing the mandated strategy for all assets under management, as directed by the Conservancy's Finance Committee.
2. ~~(b)~~ Acting in a prudent manner with respect to the investment of assets under management.
3. ~~(c)~~ Reporting quarterly investment performance for all Conservancy assets under its management.
4. ~~(d)~~ Making asset allocation recommendations to the Conservancy based on Conservancy objectives.
5. ~~(e)~~ Evaluating and proposing strategies relevant to the future of the portfolio.
6. ~~(f)~~ Selecting investments.
7. ~~(g)~~ Modeling portfolios and calculating investment results under selected scenarios.
8. ~~(h)~~ Rebalancing the portfolio in a regular and disciplined manner and subject to the target asset allocation table with confirmations sent to the Conservancy staff.
9. ~~(i)~~ Determining fair and reasonable compensation and fees paid from portfolio assets.
10. ~~(j)~~ Acting in a fiduciary capacity.

C. ~~4.~~ The Conservancy staff will be responsible for:

1. ~~(a)~~ Coordinating the engagement of the Investment Manager.

2. ~~(b)~~ Compiling information on investment return and performance for the Board of Directors and/or Finance Committee review.

3. ~~(c)~~ Coordinating communication and scheduling appearances of the Investment Manager with the Conservancy's Board of Directors and Finance Committee.

4. ~~(d)~~ Maintaining necessary and relevant records of reports, transactions and activity related to the endowment funds.