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St. HOPE Leadership Academy Board of Trustees

Investment Policy Statement

I. ~~Introduction~~Roles and Responsibilities

The purpose of this Investment Policy Statement (the "Policy") is to establish guidelines for St. HOPE Leadership Academy Charter School's (the "School") investment portfolio (the "Portfolio"). ~~The statement also incorporates accountability standards that will be used for monitoring the progress of the Portfolio's investment program and for evaluating the contributions of the manager(s), if any, hired on behalf of the School.~~ oversight of the Portfolio shall be by the Board of Trustees (the "Board"), which shall be responsible for approving all actions with respect to the Portfolio, including its investment objectives, policies regarding expenditure and all actions with respect to the investment or distribution of funds.

The Board has delegated the responsibility for the maintenance and management of the Portfolio to the Investment Committee (the "Committee"). The Committee, and any advisors or managers with which the Board contracts, will always be mindful of their fiduciary responsibility to preserve and grow the assets of the Portfolio as set forth in the Policy. In all case, the Committee's role is to make recommendations, approved by a majority of the Committee, to the Board, consistent with this Policy, and to effectuate the directions rendered by a majority of the Board.

II. ~~Role of the Investment Committee~~Scope of this Policy

~~The Investment Committee (the "Committee") is acting in a fiduciary capacity with respect to the Portfolio, and is accountable to the Board of Trustees of the School for overseeing the investment of all assets owned by, or held in trust for, the School and making appropriate recommendations regarding the Portfolio.~~

This ~~Investment Policy Statement~~ sets forth the investment objectives, distribution policies and investment guidelines that govern the Portfolio and the activities and parties to whom the Board ~~of Trustees~~ has delegated investment management responsibility for the Portfolio. The policies contained herein have been formulated consistent with the School's anticipated financial needs and in consideration of the School's tolerance for assuming investment and financial risk, ~~as reflected in the majority opinion of the Committee and as approved by a majority of the Board of Trustees.~~ Policies contained in this statement and are intended to provide guidelines, where necessary, for ensuring that the Portfolio is managed consistent with the short-term and long-term financial goals of the School. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in capital market conditions and in the financial circumstances of the School.

III. Purpose of the Portfolio

~~The Committee will review this Investment Policy Statement at least once per year and suggest changes, if any, to the Board of Trustees. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the Board of Trustees, and written confirmation of the changes will be reflected in the minutes of the Board of Trustees and provided to any other parties to whom the Committee or Board of Trustees has delegated investment management responsibility for the Portfolio as soon thereafter as is practical.~~Board has determined that it is in the best interest of the School and the School's long-term goals to invest a portion of the School's cash capital reserve (the "Reserve") into the Portfolio.

~~III.—~~

~~Investment Objective and Spending Policy~~ The Portfolio is to be invested with the objective of ~~preserving the long-term, real purchasing power of the invested principal~~ preservation of capital, while providing a relatively predictable and growing stream of annual distributions in support of the School and/or any such programs ~~as to which~~ the Board ~~of Trustees~~ may direct such distributions.

~~For the purpose of making distributions, the School shall make use of a total return-based spending policy, meaning that it will fund distributions from net investment income, net realized capital gains, and proceeds from the sale of investments, thereby preserving principal.~~

~~The distribution of Portfolio assets will be permitted to the extent that such distributions do not exceed a level that would substantially erode the Portfolio's principal over time. The Committee will seek to reduce the variability of annual Fund distributions by factoring past spending and Portfolio asset values into the recommendations that the Committee makes to the Board of Trustees. The Committee will review its spending assumptions annually.~~ It is the intention of the Board that any distributions will be from any amount in excess of Portfolio principal, although the Board may authorize any distribution that it believes to be in the best interest of the School at that particular time. It is anticipated that any gains in the Portfolio in excess of distributions authorized by the Board will be reinvested to achieve the goal of long-term growth.

The Committee, and any other body as determined by the Board, will review the School's distribution needs annually, or otherwise as directed by the Board, for the purpose of deciding whether ~~any changes therein necessitate a recommendation~~ the Committee needs to make any recommendations to the Board ~~of Trustees~~ to amend the spending policy, the target asset allocation, or both.

~~Periodic cash flow, either into or out of the Portfolio, will be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy at Section IV.(b). herein.~~

IV. Portfolio investment ~~policies~~ factors

~~(a) General factors to be considered~~

In managing and investing the Portfolio, the Committee will consider the following factors in making any recommendation to the Board of Trustees:

- (i) general economic conditions;
- (ii) the possible effect of inflation or deflation;
- (iii) the expected tax consequences, if any, of investment decisions or strategies;
- (iv) the role that each investment or course of action plays within the overall investment Portfolio;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the School;
- (vii) the needs of the School and the Portfolio to make distributions and to preserve capital; and
- (viii) an asset's special relationship or special value, if any, to the purpose of the School.

Further, all management and investment decisions about an individual asset shall be made in the context of the Portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the School.

V. ~~(b)~~ Asset allocation policy

~~The Committee recognizes that the strategic allocation of Portfolio assets across broadly defined financial asset and subasset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long term investment returns and Portfolio asset value stability. This understanding is weighted against the~~ stated goals of the Board ~~of Trustees~~ for the Portfolio, ~~namely~~ are that the allocation of the Portfolio be (i) conservative and (ii) not overly complex.

The Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to making recommendations for periodic changes to the Portfolio's asset allocation, it expects to do so only in the event of material changes to the Portfolio, to the assumptions underlying Portfolio spending policies, and/or to the capital markets and asset classes in which the Portfolio is invested.

Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of Portfolio equity investments will be to maximize the long-term real growth of Portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments.

Cash investments will, under normal circumstances, only be considered as temporary Portfolio holdings, and will be used for liquidity needs or to facilitate a planned program of dollar-cost averaging into investments in either or both of the equity and fixed income asset classes.

Outlined below are the long-term strategic asset allocation guidelines, determined by the Committee, and approved by the Board of Trustees, to be the most appropriate, given the School's long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated in mutual or exchange traded funds in accordance with the following guidelines:

Asset class	Target allocation
Equity	70%
Fixed Income	30%
Cash	0%

To the extent the Portfolio holds investments in nontraditional, illiquid, and/or nonmarketable securities including (but not limited to) venture capital, hedge funds, and real estate investments, these assets will be treated collectively as alternative investments for purposes of measuring the Portfolio's asset allocation. While not specifically considered within this policy, alternative investments may comprise no more than ~~45~~10% of total Portfolio assets and, to the extent they are

owned, will proportionately reduce target allocations to the three primary asset classes itemized above.

VI. ~~(e)~~

Asset diversification policy

Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

- (i) With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.
- (ii) With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher).

To the extent the Portfolio is invested in independently managed mutual or exchange-traded funds, such investments shall be subject to the asset allocation policy set forth in Section ~~IV.(b).V~~, but not subject to the asset diversification policy set forth in this Section ~~IV.(e).VI~~.

VII. ~~(d)~~ Rebalancing

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and ~~subasset~~sub-asset classes. The ~~Portfolio will be rebalanced to its target normal asset allocation under the following procedures:~~

- ~~(i) The Committee will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio to realign the current weightings closer to the target weightings for the Portfolio.~~
 - ~~(ii) The Committee will review the Portfolio at least annually to determine the deviation from target weightings. ~~During each semiannual review, the following parameters will be applied:~~a. If any asset class ~~(equity or fixed income)~~ within the Portfolio is +/-5 percentage points from its target weighting, the ~~Portfolio will be rebalanced.~~~~
 - ~~b. If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.~~
 - ~~(iii) The Committee will make a recommendation to the Board that the Portfolio be rebalanced. In addition, the Committee may provide a rebalancing recommendation to the Board at any time.~~
 - ~~(iv) The Committee shall evaluate deviation from these ranges and to report on such deviations to the Board of Trustees on a bi annual basis (June and December).~~ based on its monitoring and/or review of the Portfolio.

~~(e) Other investment policies~~

VIII. Prohibited Acts

Unless expressly authorized by the Board ~~of Trustees~~, the Committee and any party to whom the ~~Committee~~Board delegates authority, is prohibited from the following actions with regard to the Portfolio:

- (i) Purchasing securities on margin or executing short sales.
- (ii) Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
- (iii) Purchasing or selling derivative securities for speculation or leverage.
- (iv) Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of the School.

IX. Outside Manager

~~V. Monitoring portfolio investments and performance~~

To the extent the Board directs or authorizes the hiring of a third-party to manage, oversee or otherwise exert authority over either the Portfolio or the Reserve, the Board shall approve policies and criteria to hire, monitor, evaluate and dismiss any third-party. Such policy will also specifically delineate the powers of any third-party.

~~The Committee will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives. At a frequency to be decided by the Committee it will formally assess the Portfolio and the performance of its underlying investments as follows:~~

- ~~(i) The Portfolio's composite investment performance (net of fees) will be judged against the following standards:
 - ~~a. The Portfolio's absolute long-term real return objective.~~
 - ~~b. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio's investment guidelines:
 - ~~i. U.S. Equity: Wilshire 5000 Total Market Index~~
 - ~~ii. Non-U.S. Equity: MSCI EAFE +EM Index~~
 - ~~iii. Investment Grade Fixed Income: Barclays Capital U.S. Aggregate Bond Index~~
 - ~~iv. Non-Investment Grade Fixed Income: Barclays Capital U.S. Corporate High Yield Bond Index~~
 - ~~v. Cash: Citigroup 3-Month T-Bill Index~~~~~~
- ~~(ii) The performance of professional investment managers hired on behalf of the Portfolio will be judged against the following standards:
 - ~~a. A market-based index appropriately selected or tailored to the manager's agreed-upon investment objective and the normal investment characteristics of the manager's portfolio.~~~~

~~b. The performance of other investment managers having similar investment objectives.~~

~~(iii) In keeping with the School's overall long term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long term investment horizon, generally across full market cycles or, at a minimum, on a rolling five year basis.~~

~~(iv) Investment reports shall be provided by the investment manager(s) on a (calendar) quarterly basis or as more frequently requested by the Committee. Each investment manager is expected to be available to meet with the Investment Committee once per year to review portfolio structure, strategy, and investment performance.~~

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