

Investment Guidelines

The Laguna Beach Endowment and Capital Fund

(as revised 9/23/10)

The Laguna Beach Endowment and Capital Fund fulfill two separate and distinct functions. The Endowment Fund is a perpetual fund, serving the current and future needs of the Laguna Beach Unified School District through annual distributions that are calculated as a percentage of the overall fund. The Capital Fund is a self-liquidating fund, used for currently anticipated expenditures for the benefit of students in the Laguna Beach Unified School District.

Assets donated to the Laguna Beach Endowment and Capital Fund must be assigned as part of one or the other Fund. Designation may be made by the donor or the Board of the Laguna Beach Endowment and Capital Fund. Absent specific requests by the donor, the presumption of donated assets is to consider those assets part of the Endowment Fund.

Management of the two funds will be conducted separately in recognition of the separate functions served by the funds, although Investment Committee members may be the same for both funds. Investments of the Endowment Fund will reflect the long-term nature of the assets and the need for capital growth. Investments of the Capital Fund will reflect the short-term nature of the assets and the need for capital preservation.

The Endowment Fund

The purpose of the Laguna Beach Endowment Fund is the long-term support of the educational mission of the Laguna Beach Unified School District.

Endowment funds will be invested to produce maximum total return consistent with prudent levels of risk. In measuring total return there shall be no distinction between interest, dividends and realized and unrealized capital appreciation, except where such a distinction is legally required.

Total returns are expected to preserve and enhance the real value of the Endowment Fund after funds are released for current use. As such, the minimum average target rate of return over time for the Endowment Fund will be equal to or greater than the spending rate plus the inflation rate as measured by the Consumer Price Index (CPI). In order to enhance the real value of the Endowment, the goal is to achieve total returns greater than the minimum.

Spending Rule

On an annual basis, the Endowment Fund shall make available to the Allocation Fund of the Endowment Committee, up to five percent (5%) of the Endowment's weighted-average market value of the past three fiscal years. This "smoothing rule" is to moderate year-to-year fluctuations due to changes in the Endowment's market value. The operating expenses of the Endowment will be deducted from this annual 5% distribution.

Investment Asset Class Mix

The portfolio shall be broadly diversified. Asset class mix will be such that over time the expected rate of return on a composite basis will meet or exceed the target rate of return necessary to reach the Endowment's return goals.

To ensure real returns sufficient to achieve these return goals, the Endowment portfolio shall be invested with the following general long-term targets.

60%	Equities (including Foreign Equities)
40%	Fixed Income

Depending on allocation decisions of investment managers and relative performance of asset classes, actual allocations may vary within the following ranges:

45 - 70%	Equities (including Foreign Equities)
30 - 55%	Fixed Income
0 - 20%	Alternative Assets

Equity Portfolio. The domestic equity portion of the portfolio will be diversified sufficiently to provide exposure to the broad equity market represented by the Wilshire 5000. The foreign equity portfolio will also be broadly diversified, providing general exposure to the non-U.S. markets, and may include emerging markets. Funds may be invested by several managers providing a range of investment approaches and styles. Active and passive management strategies are appropriate. The performance of active managers will be judged against an appropriate benchmark index with the expectation that the manager's return will exceed the index. Mutual funds or separate managed accounts may be considered.

The equities portion of the Endowment portfolio shall be invested with the following long-term asset class targets (and corresponding benchmarks):

40%	Large Cap (S&P 500)
28%	Mid-Cap (S&P Midcap 400)
16%	Small Cap (Russell 2000)
16%	International (MSCI EAFE)

Subject to determination of the Investment Committee, the actual allocations may vary within the following ranges:

32 - 48%	Large Cap (S&P 500)
22 - 34%	Mid-Cap (S&P Midcap 400)
13 - 19%	Small Cap (Russell 2000)
13 - 19%	International (MSCI EAFE)
0 - 20%	"Alternative" Assets

Fixed-Income Portfolio. The fixed-income portfolio will be invested to provide stability and diversification to the Endowment and may include U.S. government and corporate debt, as well as international or emerging markets debt in an amount not to exceed 20% of the overall Fixed Income allocation.

Alternative Assets. "Alternative" assets are generally assets that are expected to be uncorrelated with stock and bond markets and may include hedge fund strategies, real estate, structured products, stable value funds, commodities, currency, private equity, market neutral, managed futures, and arbitrage strategies, among others. At any given time, up to 20% of the Endowment portfolio may be invested in Alternative Assets.

The Investment Committee will review at least quarterly the returns on Endowment investments and the equity/fixed allocation. On an annual basis, at a minimum, the Committee will reaffirm by majority vote the general asset allocation mix and the manager selection. Changes in either the asset mix or manager selection may be made at any time as circumstances warrant.

Special Assets

From time to time, the Endowment fund may hold assets that are illiquid or whose value cannot be readily determined. Such assets may include, but are not limited to, collectibles, real estate and restricted securities. These assets will be held in a “Special Assets” category of the Endowment until they are liquidated, at which time the liquidation proceeds will be transferred out of Special Assets and into the Endowment. Proceeds from a partial liquidation or income generated from a Special Asset will also be transferred to the Endowment Fund.

Because of the inherent difficulty in accurately valuing illiquid or restricted assets, the value of assets in Special Assets will be set at zero (\$0) in determining the market value of the total Endowment for annual spending purposes. Upon receipt of an illiquid or restricted asset into Special Assets, the Investment Committee will seek to liquidate the asset as quickly as practical or possible so that its value may be included in the total value used in calculating annual giving.

The Capital Fund

The purpose of the Laguna Beach Capital Fund is the support of the educational mission of the Laguna Beach Unified School District.

Capital funds will be invested to preserve capital in anticipation of planned spending. In measuring total return there shall be no distinction between interest, dividends and realized and unrealized capital appreciation, except where such a distinction is legally required.

Total returns are expected to preserve the nominal value of the Capital Fund for the period the assets are held in the Fund. As such, there is no target rate of return for the Capital Fund assets, rather the assets will be invested in short-term debt securities to achieve interest rates prevailing at the time of investment.

Investment Asset Class Mix

Since the Capital Fund is short term in nature, the investment portfolio of the Capital Fund will reflect the short-term needs of capital preservation and liquidity. Investment return will be secondary to this need for capital preservation.

To help ensure the nominal value of Capital assets, investments will be restricted to debt securities of the highest quality, preferably those of, or backed by, the U.S. Government. Attempts should be made to purchase these debt securities at maturities matching planned distributions from the Capital Fund. If the timing of such distributions is unknown, investments will be made in securities whose maturities do not exceed one year.