

Investment Policy Statement

STATEMENT
OF
OBJECTIVES AND INVESTMENT POLICY
WATSONVILLE ROTARY
ENDOWMENT FUNDS

I. INTRODUCTION

The purpose of this document is to define the objectives and investment policies of the Watsonville Rotary Club Endowment funds. This document supersedes the prior Statement of Objectives and Investment Policy adopted 1-19-2000.

II. PREAMBLE

The Trustees of the Watsonville Rotary Endowment are the Board of Directors of the Rotary Club of Watsonville.

The duty of a "Trustee is to administer the trust with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims to accomplish the purposes of the trust as determined from the trust instrument." (Probate Code Section 16040).

III. OBJECTIVES

It is the intent of the Trustees of the Funds to achieve the following:

- A. Consistency and compliance with standards, safeguards and diversity of a prudent investor.**

- B. Preservation of principal and purchasing power, as the primary overall goal. growth of the principal to be accomplished through contributions of new monies to the Funds, surplus income from dividends and interest, capital gains from securities in the funds, and persistent active solicitation of new contributions.**

- C. Sufficient income from the Funds to make scholarship grants annually and for other purposes determined by the Trustees.**

- D. Avoidance of volatility in the Funds' return or capital value over a 5 year time frame.**

- E. An annual minimum total return greater than the annualized return on ninety-one (91) day U.S. Treasury Bills adjusted to the rate of inflation.**

IV. INVESTMENT POLICIES

A. General

- 1. The Investment Committee shall be appointed by and serve at the**

pleasure of the Endowment Trustees. The Committee shall be composed of two standing members - the Secretary and the Treasurer of the Board of Directors of the Rotary Club of Watsonville and no more than 3 appointed Rotarians.

2. The Investment Committees granted full investment discretion consistent with the Funds objectives, herein described, in the purchase and sale of individual securities.
3. Gain or losses should be realized solely in terms of investment merits.

B. Permissible Investments

1. The following securities are permissible investments.
 - a. Bonds, notes, treasury bills or other securities constituting direct obligations of the United States of America which are guaranteed by a pledge of the full faith and credit of the United States of America or its agencies.
 - b. International Bank for Reconstruction and Development (World Bank) issues, dollar denominated foreign bonds.
 - c. Marketable corporate bonds, notes debentures and equipment trust certificates, preferred stock, and commercial paper. All investments in interest bearing non-convertible obligations of corporations must be rated within the four highest ratings of

Standard & Poors/Moodys, and investments in corporate convertible debentures and corporate preferred must be rated BB or higher. Investments in these securities may not exceed 50% of the total Funds.

- d. Certificates of Deposit, money-market accounts, and deposits in Variable Rate Notes. These investments must be direct obligations of major commercial banks, FDIC insured with a maximum of \$100,000 in any one institution.
- e. Up to 75% of the Funds may be invested in a money-market mutual fund.
- f. Up to 50% of the Funds may be invested in a combination of common stocks and equity or balanced mutual funds. The total value of the bonds contained in a balanced mutual fund in combination with bonds referred to in c. above may not exceed 50%.

Common Stocks must have the following qualifications:

- The issuer must have been in operation for at least five (5) years.
- A consistent earnings record.
- Good marketability.

Equity, Balanced or Money Market-Mutual Funds must have the following criteria:

- In operation for at least five (5) years.

-Well recognized management.

-Superior performance record.

2. Fixed income securities are to be selected and managed to insure an approximate balance of quality, maturity and coupons consistent with the current money market, financial conditions, and to meet the objectives of the Endowment Fund.

C. Diversification

Not more than 10% of the assets of the Funds may be invested in the securities of any one issuer, excluding United States Government Securities.

D. Portfolio Review

The investment committee will review and rebalance the portfolio as necessary to maintain conformance with the Investment Policy.

V COMMUNICATION

- A. Any proposed change in the investment strategy by the Investment Committee must be communicated to the Endowment Trustees and approved prior to any change.
- B. A financial summary will be provided at each board meeting of the Endowment Trustees. Performance results, portfolio listings, valuations, and transaction summaries will be provided to and

reviewed by the Endowment Trustees upon request but no less than semi-annually in February and August.

VI. TRANSACTIONS

Portfolio turnover rates, as appropriate for the Funds' objectives, are to be determined by the Investment Committee.

VII. REVISIONS

The Endowment Trustees may make changes in this statement, independently or upon recommendation by the Investment Committee. It will be the responsibility of the Trustees to communicate such revisions, in writing, to the Investment Committee prior to the effective date of such revisions.

Adopted January 19, 2000

Revised February 21, 2006

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- C. Sufficient income from the Fund to make scholarship grants annually and for other purposes determined by the Trustees.
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