

THE RALPH M. PARSONS FOUNDATION

INVESTMENT POLICY STATEMENT

Adopted by the Board of Trustees of the Foundation on December 7, 2011

Updated September 18, 2024

I. INTRODUCTION

- A. The Ralph M. Parsons Foundation (the “Foundation”) was incorporated October 27, 1961 as a non-profit corporation in the State of California as a private foundation dedicated to disbursing funds to a number of charities, educational institutions, and research and cultural organizations. Minimum distributions are required each year in accordance with a specified Internal Revenue Service formula.
- B. This statement is issued by the Board of Trustees (the “Board”) of the Ralph M. Parsons Foundation. It is anticipated that this statement will remain in effect until modified by the Board or as delegated to the Investment Committee (the “Committee”) as conditions warrant. The Board, the Investment Committee, and the investment managers are expected to propose revisions to these guidelines at any time they potentially impede the Foundation from meeting its investment objectives.
- C. The purpose of this statement is to foster a clear understanding of the Foundation’s investment objectives, policies and guidelines for the Investment Pool (the “Fund”) among the Board, the Foundation staff, the investment consultant, and the Foundation’s investment managers. This Investment Policy statement supersedes all previous versions.
- D. The Board will review this Foundation Investment Policy Statement periodically to ensure its continued appropriateness. It is the intent of this statement to be both sufficiently specific to be meaningful and yet flexible enough to be practical and enduring.
- E. The Board will delegate to the Investment Committee the duties of carrying out the policies contained in the Investment Policy Statement. Specifically, the Investment Committee will be in charge of selecting, monitoring, and when appropriate, terminating investment managers. Final approval of such action will rest with Board. The Investment Committee may hire a custody manager and/or an investment advisor to provide services necessary to perform its obligations as set forth in the Investment Policy Statement.

II. FINANCIAL AND INVESTMENT OBJECTIVES

- A. The overall **financial objective** of the Fund is to preserve and enhance the real (inflation adjusted) purchasing power of the Foundation and to provide a relatively predictable, stable and constant return sufficient to meet the Foundation’s grantmaking and operating needs of approximately 5.0% of assets.
- B. The primary **investment objective** of the Fund is to attain an average annual real total return of at least 5.0% per year, net of management fees, over the long-term (rolling ten-year periods). It is recognized that in order to achieve the primary investment objective over extended periods, foundations have had to exceed the objective substantially during some periods, such as the 2010’s, in order to compensate for shortfalls during other periods,

such as the 2000's. Hence, evaluation of progress toward this objective should be made with a long-term perspective. It is recognized that this objective implies a high average allocation to equity securities and consequent market price volatility.

- C. In addition, the Fund will seek to outperform an appropriate blend of capital market benchmarks with reference to the Fund's "normal" policy targets for each asset class. The current performance benchmarks for the asset classes comprising the policy portfolio are attached as **Exhibit 1**.
- D. The Fund will also seek to outperform the median return of a pool of foundation funds.
- E. It is recognized that the desire to maintain and increase the purchasing power of the corpus and to produce a stable, predictable, and large spending stream involves trade-offs that must be balanced in establishing the investment and spending policies.

III. PORTFOLIO COMPOSITION AND ASSET ALLOCATION POLICY

- A. Over the long run, asset allocation will likely be the single most important determinant of the Fund's investment performance. The Board may change the asset allocation targets, and ranges. However, it is anticipated that such changes will be infrequent.
- B. The Fund will be diversified both by asset class (e.g., common stocks, diversifiers, inflation-sensitive real assets, private equity, fixed income, and cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization). The purpose of diversification is to enhance prospective returns, lower the volatility of the overall pool of assets, and provide reasonable assurance that no single security or class of securities will have a disproportionate negative impact on the total Fund.
- C. To achieve its investment objective, the Fund shall be divided into five parts: a traditional equity allocation, a diversifiers allocation, a private equity allocation, an inflation-sensitive real assets allocation, and a fixed income allocation.
- D. The purpose of the traditional equity allocation is to produce long-term capital appreciation in order to facilitate the real growth of the corpus and the generation of a growing spending stream. It is recognized that the traditional equity allocation will have greater return variability than the fixed income allocation. The Fund's traditional equity investments should be diversified across U.S., Non-U.S. developed markets and emerging markets, as well as across market capitalization sectors that should generate return patterns that are expected to be imperfectly correlated (i.e., the returns of which do not always move in tandem).
- E. Within the traditional equity allocation, portfolios of U.S. common stocks will comprise the largest long-term commitment. This commitment to U.S. common stocks will range from 12% to 35% of the total Fund, with a long-term target of 19% of the Fund. The commitment to Non-U.S. Developed stocks will range from 4% to 25%, with a long-term target of 13% of the Fund. The commitment to Emerging Markets stocks will range from 2% to 15%, with a long-term target of 7% of the Fund.

- F. The purpose of the diversifiers allocation is to generate long-term returns similar to the traditional equity allocation at a lower level of volatility and with only modest correlations (e.g., 0.5 or lower) to public equity and bond markets. Over shorter time periods, this allocation would be expected to outperform hedge fund benchmarks. To achieve these goals, the Foundation may invest in various hedge fund strategies, including diversified arbitrage, event arbitrage, distressed securities and various long/short strategies, as well as other diversifying investments such as specialized credit structured as private investment funds. The target allocation to diversifiers is 15%, with a policy range of 12% to 25%. Public diversifiers have a long-term target of 10% while private diversifiers have a long-term target of 5%.
- G. The purpose of the private investments allocation will be to earn longer term returns that are higher than would be expected from traditional public equity investments. The long-term goal of this allocation is to outperform public equity markets, net of fees, by at least 3% per year. The shorter term return objective is to outperform a universe of funds with similar strategies inceptioned in the same vintage year. To achieve these goals, the Foundation may make investments in two broad categories of private investments: venture capital (which would include both venture capital and growth equity funds) or private equity (which would include buyout, distressed funds, international private equity, mezzanine, and secondary funds, as well as fund-of-funds that invest in the underlying strategies). The long-term target allocation to private investments is 21%, with a policy range of 0% to 30%, split 9% to venture capital and 12% to private equity.
- H. Within private investment allocations, the Foundation may invest either in primary or secondary partnership fund interests, as well as co-investments. While, as a general matter, the Foundation will typically invest as a primary investor in fund partnerships, it may hold interests purchased on the secondary market in an effort to achieve higher returns, lower fees, time diversification, or strategic access to specific funds. The Foundation may invest in co-investments which can provide concentrated exposure to compelling portfolio companies, typically on a reduced fee basis.
- I. The purpose of the inflation-sensitive real assets allocation will be to provide protection against unanticipated inflation as well as an additional source of diversified growth. This allocation may include Treasury Inflation Protected Securities (TIPS), Real Estate Investment Trusts (REITs), private real estate, and/or public or private natural resource-related investments, (e.g., equity participation in oil and gas activities, or investment in marketable securities of energy companies, and commodities). Inflation-sensitive real assets may comprise 2% to 20% of total Fund assets, with a long-term target of 13% of the Fund. Public real assets have a long-term target of 5%, and private real assets have a long-term target of 8%.
- J. The primary purpose of the fixed income allocation is to provide a hedge against deflation and, secondarily, to produce current income in support of spending needs and to help diversify the total Fund to reduce Fund volatility.
- K. The fixed income allocation should normally represent 10% of Fund assets at market value. Although the actual percentage of fixed income securities will vary due to market fluctuations and manager allocations, levels greater than 25% or below 5% should be

closely monitored and additional funds should be transferred as needed to ensure that the ratio does not exceed those parameters for extended periods. For purposes of determining the Fund's compliance with this paragraph, fixed income instruments held as equity reserves (either directly or through equity managers) will be excluded.

- L. Cash equivalents are maintained for short-term operating purposes and at the discretion of equity and bond managers. The cash allocation target is 2%.
- M. In summary, the Foundation will have the following long-term policy target and ranges:

<u>Asset Class</u>	<u>Long-Term Policy Target</u>	<u>Policy Range</u>
Global Equities		
U.S. Equity	19%	12% to 35%
Non-U.S. Developed	13%	4% to 25%
Emerging Markets	7%	2% to 15%
Private Investments	21%	0% to 30%
<i>Private Equity</i>	12%	
<i>Venture Capital</i>	9%	
Total Public / Private Equity	60%	
Diversifiers	15%	12% to 25%
<i>Marketable Diversifiers</i>	10%	
<i>Private Diversifiers</i>	5%	
Real Assets	13%	2% to 20%
<i>Public Real Assets</i>	5%	
<i>Private Real Assets</i>	8%	
Fixed Income	10%	5% to 25%
Cash	2%	0% to 5%
Total Assets	100%	

IV. INVESTMENT MANAGER STRUCTURE

- A. Specific investment decisions will be developed and implemented by active and passive external investment managers. To provide diversified exposure, a multiple manager structure will be employed. The purpose of diversification through multiple managers is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Fund's aggregate results. In addition, the expectation is that exposure to multiple investment philosophies will smooth the path of returns through different market cycles.

- B. Within the traditional public equity allocation, it is expected that the multiple manager structure may include a variety of disparate investment styles, including value-oriented, growth-oriented, opportunistic, etc.

V. GUIDELINES FOR TRADITIONAL PUBLIC EQUITY INVESTMENTS

- A. The traditional equity fund will generally be diversified among U.S. equities and non-U.S. equities.
- B. The performance objective for the equity fund is to achieve a real return (i.e., above inflation), net of manager fees, of at least 5.0%. In addition, the return should be superior to that of appropriate blended market benchmarks.
- C. Passive (or index) managers will be expected to perform consistently with their corresponding index benchmarks less management fees.
- D. Active managers will be measured against both market indexes and peer benchmarks, net of all fees, and will be expected to outperform these benchmarks by varying degrees depending on the asset class and specific investment style employed by the manager.
- E. Performance will be monitored quarterly, and common stock managers will be evaluated over rolling three- to five-year periods. It is recognized that active managers may underperform their benchmarks under certain conditions, but should outperform over a complete market cycle (3-10 years). The Foundation acknowledges that the pursuit of long-term outperformance is likely to increase the volatility of returns, and will increase the risk that the manager will underperform the benchmark.
- F. Decisions as to security selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to broad manager discretion, subject to the usual standards of fiduciary prudence.
- G. Equity managers may at their discretion hold investment reserves of either cash equivalents or bonds with the understanding that the performance of their total account will be measured against the appropriate stock indices and peer managers.

VI. GUIDELINES FOR INFLATION-SENSITIVE REAL ASSETS

- A. The objectives of inflation-sensitive real assets are: (1) to protect the portfolio against the economic risk of inflation; and (2) to improve the diversification of the Fund.
- B. Inflation-sensitive real assets, which include REITs, private real estate, natural resource stocks, private energy funds, MLPs, commodities, timber funds, infrastructure stocks, and Treasury Inflation Protection Securities (TIPS) are targeted to be 13% of the total Fund, 5% public real assets and 8% private real assets

VII. GUIDELINES FOR DIVERSIFIERS

- A. The performance objectives for diversifiers are: (1) to earn common stock type returns over long-term periods with less volatility; and (2) to improve the diversification of the Fund. The investment and trading approaches of such funds should have explicit strategies in place through which risk is monitored and moderated.
- B. Diversifiers, such as risk arbitrage, distressed security, long/short managers, and private diversifiers are targeted to be 15% of the total Fund.

VIII. GUIDELINES FOR PRIVATE INVESTMENTS

- A. The performance objective for private investments is to: 1) earn a return higher than traditional common stocks by 3% per year measured over full market cycles; and 2) to outperform funds with a similar strategy inceptioned in the same vintage years.
- B. Private investments (e.g., private equity and venture capital funds) are targeted to be 18% of the total Fund.

IX. GUIDELINES FOR THE FIXED INCOME INVESTMENTS

- A. The performance objective for the fixed income allocation is to outperform the Barclays Aggregate Bond Index by 0.5%, net of fees, over rolling three- to five-year periods. The performance of each fixed income manager will be measured against this index and against an appropriate bond manager universe (e.g., the Cambridge Associates Intermediate/Long-Term Fixed Income Manager Universe), and evaluated over rolling three- to five-year periods.
- B. Money market instruments as well as bonds may be used in the fixed income allocation, but equities are excluded. The managers are expected to employ active management techniques, but changes in weighted average duration should usually be moderate and incremental.
- C. To provide a hedge against extended deflation, the fixed income allocation should maintain a high credit quality and an intermediate- to long-term duration.
- D. In general, the fixed income investments should be prudently diversified with respect to economic sector, financial sector, and issuer in order to minimize risk exposure. A maximum of 5% of the fixed income allocation may be invested in the securities of any single issuer, except that issues of the U.S. Government or agencies of the U.S. Government may be held without limitation.

X. USE OF DERIVATIVES

- A. Derivatives may be used by the Foundation's investment managers to hedge existing portfolio investments (e.g., to hedge the currency risk of a foreign stock or bond position) or to create un-leveraged investment positions as a more efficient and cheaper alternative

to investments that would otherwise be made in the cash market. Derivatives may not be used by marketable securities managers to leverage a portfolio or significantly increase its risk above that of an account with similar objectives that is managed without derivatives. Use of derivatives by a manager other than as described in this paragraph is permitted only if such use is authorized by the Board.

- B. The Foundation expects that its investment managers utilizing derivatives will have in place processes and procedures to control and measure risk.
- C. For separate accounts, manager-specific guidelines shall include covenants with respect to use of derivatives and shall require the managers to give written notice to the Foundation and its investment advisor immediately upon discovering that any of the guidelines have been violated. The investment advisor shall periodically review the derivatives policy of each manager of a commingled vehicle to ensure that such policy is within this Investment Policy statement or that it has made an exception in appropriate cases.

XI. GUIDELINES FOR TRANSACTIONS

- A. Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best realized net price.

XII. FUND OVERSIGHT AND REBALANCING

- A. The Investment Committee will monitor the Fund on a continual basis for consistency of investment philosophy, return relative to objectives, and investment risk. Risk will be evaluated as a function of asset concentration, exposure to extreme economic conditions, and performance volatility. The Investment Committee will normally review the Fund's asset allocation, manager structure, and performance quarterly in order to evaluate diversification and progress toward long-term objectives. The Investment Committee will evaluate each manager's total return without regard to whether the return was in the form of income or capital appreciation. Each manager's performance will be evaluated against an appropriate passive index and the median return of an appropriate universe of institutional quality managers or funds. While short-term results will be monitored, it is understood that the objectives for the Fund are long-term in nature and that progress toward these objectives will be evaluated from a long-term perspective.
- B. Although managers' investment performance will normally be evaluated over rolling three-to five-year periods, the Investment Committee and its investment advisor will evaluate each manager periodically in order to establish that the factors that led to initial performance expectations remain in place and that each manager's philosophy is appropriate for the Fund's overall objectives.
- C. Each investment manager will report to the Foundation and its investment advisor the following information quarterly: total return (on a time-weighted basis) net of all commissions and fees, additions and withdrawals from the account, current holdings at cost and market value, and purchases and sales for the quarter. Regular communication concerning investment strategy and outlook is expected. Additionally, managers are

required to inform the Foundation and its investment advisor of any material change in fundamental investment philosophy, firm ownership, organizational structure, professional personnel, or account structure (e.g., number, asset size, account minimum).

- D. For separate accounts, the Investment Committee will provide the manager with a set of mutually agreed-upon guidelines. Subject to such guidelines and the usual standards of fiduciary prudence, the managers will then have complete discretion over the funds.
- E. If at any time any manager of a separate account believes that any policy guideline inhibits his or her investment performance, it is his or her responsibility to communicate this view in writing to the Investment Committee.
- F. The Investment Committee acknowledges that, if it elects to invest in a commingled fund (e.g., mutual fund); the policies established for the commingled fund will govern and may not comply fully with policies established for the Fund. The Investment Committee and its investment advisor will periodically review the policies (i.e., investment parameters) of any commingled fund investment to determine if they remain appropriate for the Fund.
- G. At its sole discretion, the Investment Committee may recommend the termination of any manager at any time if it determines, for whatever reason, that the manager is no longer appropriate for the Fund.
- H. Rebalancing asset allocations to strategic targets is essential for maintaining the risk profile adopted by the Board. The Fund's actual asset allocation will be monitored regularly relative to established strategic targets. The Board recognizes adjustments may be constrained by practical limits with respect to liquidity and transaction costs, but will make efforts to rebalance as appropriate. Cash flow in or out of the Fund should be viewed as an opportunity to adjust the allocation, close to targets.
- I. The Investment Committee will periodically review the related services provided to the Foundation, including custodial services, performance evaluation and consulting.

Exhibit 1

THE RALPH M. PARSONS FOUNDATION

Performance Benchmarks

Asset Class	Benchmark
U.S. Equity	Russell 3000 Index
Non-U.S. Developed	MSCI EAFE Index (Net)
Emerging Markets	MSCI Emerging Markets Index (Net)
Private Equity/Venture Capital	MSCI ACWI (Net) (Quarterly, lagged)
Marketable Diversifiers	20% MSCI ACWI (Net) / 80% BofA 91-Day Treasury Bills
Private Diversifiers	20% MSCI ACWI (Net) / 80% BofA 91-Day Treasury Bills (Quarterly, lagged)
Marketable Real Assets	50% FTSE EPRA NAREIT Global Real Estate Index
Private Real Assets	50% MSCI World Natural Resources Index / 50% FTSE EPRA NAREIT Global Real Estate Index (Quarterly, lagged)
Fixed Income	Bloomberg Aggregate Bond Index
Cash	BofA ML 91-Day Treasury Bills
Total Assets	Weighted index benchmark based on asset allocation policy targets Cambridge Associates Foundation median