

INVESTMENT POLICY STATEMENT

FOR



BISHOP GARCIA DIEGO HIGH SCHOOL, INC.
4000 LA COLINA ROAD
SANTA BARBARA, CA 93110

Prepared November 10, 2005

TABLE OF CONTENTS

	<u>Page</u>
Purpose	2
Background	3
Statement of Objectives	3
• Time Horizon	
• Risk Tolerances	
• Performance Expectations	
• Asset Allocation Constraints	
• Rebalancing of Strategic Allocation	
Securities Guidelines	5
• Domestic Equities	
• Domestic Fixed Income	
• International Equities	
• Global Fixed Income	
• Cash/Cash Equities	
Selection of Money Managers	7
• Management Criteria	
• Board Conflict of Interest	
Control Procedures	8
• Duties and Responsibilities of the Money Managers	
• Brokerage Policy	
• Performance Objectives	
• Monitoring of Money Managers	
Attachment A: Key Information	11

PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist Bishop Garcia Diego High School, Inc. Board of Trustees (Board) in effectively supervising, monitoring and evaluating the investment of Bishop Garcia Diego High School's, Inc. (the "School") short-term and long-term investment assets. The School's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all School investment assets.
- Setting forth an investment structure for managing all School investment assets. This structure includes various asset classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the short and long run.
- Providing guidelines for each investment portfolio that control the level of overall risk and liquidity assumed in the portfolio, so that all School investment assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Board and the School's money managers.
- Establishing formal criteria to monitor, evaluate, and compare the performance results achieved by the School's money managers on a regular basis.
- Enabling the Board and the School to act with appropriate fiduciary, prudence and due diligence requirements.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

BACKGROUND

Mission Statement

Bishop Garcia Diego High School, Inc. is an independent Catholic co-educational secondary school that welcomes students of all faiths and provides them with the spiritual, personal, and intellectual knowledge to meet the enduring challenge of realizing their God-given potential in a multi-cultural society.

STATEMENT OF OBJECTIVES

The objectives of the Board are established as follows:

1. The School will work to meet its annual operating costs through a combination of tuition and annual fundraising.
2. The School will determine, on an annual basis, those funds required to be held “in reserve” to provide the School an adequate level of protection in the event of unanticipated short-term requirements for funds and/or unanticipated shortfalls of operating funds available to the School.
3. Short-term funds required by the School to meet its annual operating costs, including funds held “in reserve” as determined by the Board, will be invested in short-term and liquid securities to enable the School to have ready access to those funds as needed.
4. Funds currently held by the School for designated purposes that are not directly related to annual operations will be invested in short-term and long-term securities that enable the School to balance the desire for investment return against relative risks of the investment(s) and the need to access those funds in a timely manner.
5. Funds raised or secured by the School above what is required for annual operations, whether annual operating surplus funds or funds raised for designated operating or capital purposes, will be invested in short-term and long-term securities that enable the School to balance the desire for investment return against relative risks of the investment(s) and the need to access those funds in a timely manner.
6. The overall investment objective for any School funds, whether short-term or long-term, will be invested with the assistance and guidance of professional investors/money managers with an objective of balancing the desire for investment return against relative risks of the investment(s) and the need to access those funds in a timely manner

Time Horizon

The investment guidelines will be based upon an investment horizon appropriate to the anticipated time period when the funds may be needed. The investment asset allocation will be determined in this context with the input and direction of professional money managers.

Risk Tolerances

The Board recognizes the difficulty of achieving the School's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the School's desire for maximizing investment returns.

In establishing the risk tolerances of the IPS, the ability to withstand short-term and intermediate-term variability will be considered. However, it is anticipated that the School can tolerate some interim fluctuations in market value and rates of return in order to achieve its short-term and long-term objectives.

For the Bishop Garcia Diego High School, Inc. operating reserve, risk tolerance is low, investments to be in readily accessible interest bearing accounts. Permissible investments will include: Certificates of Deposits, money market accounts, repurchase agreements and Treasury Bills.

Performance Expectations

The desired investment objective is to maximize rates of return while accepting an appropriate degree of investment risk. For long-term investments, the objective will also attempt to derive a rate of return in excess of the then current anticipated rate of inflation to avoid erosion of principal value on a current dollar basis. The Board realizes that market performance varies. Accordingly, relative performance benchmarks for the School's money managers will be established to both monitor the performance of those managers and provide a reasonable estimate of anticipated returns. Ideally, the goal of the Board and the School should be to achieve an overall annualized total return after deducting for advisory, money management, and custodial fees, as well as total transaction costs, above the median of a customized index comprised of market indices weighted by the strategic asset allocation of the related investment.

Asset Allocation Constraints

Asset allocation targets and related constraints will be determined based on input from professional money managers and will consider balancing the School's desire for investment return relative to risk tolerance. Asset allocation targets will be periodically reviewed and reconsidered as market circumstances dictate.

Rebalancing of Strategic Allocation

The percentage allocation to each asset class established may vary as much as plus or minus 5% depending upon market conditions. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the investment assets. If there are no cash flows, the allocation of the investment assets will be reviewed quarterly.

If the *Finance Committee* judges cash flows to be insufficient to bring the Fund within the strategic allocation ranges, the *Finance Committee* shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges.

SECURITIES GUIDELINES

Every money manager selected to manage the School's investment assets must adhere to the following guidelines. The following securities and transactions are not authorized unless receiving prior Board approval:

- 1 Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
- 2 Securities lending; pledging or hypothecating securities;
- 3 Investments in the equity securities of any company with a record of less than three years' continuous operation, including the operation of any predecessor.
- 4 Investments for the purpose of exercising control of management.

In addition, the guidelines set forth in any prospectus shall prevail for all mutual fund investments.

Domestic Equities

- Equity holdings in any one company should not exceed more than 5% of the market value of the School's equity portfolio.
- Allocation to any one economic sector should not be excessive and should be consistent relative to the broad equity market and to managers following similar style disciplines.
- The manager shall emphasize quality in security selection and shall avoid risk of large loss through diversification.
- The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the managers will be evaluated against their peers on the performance of the total funds under their direct management.
- Holdings of individual securities shall be large enough for easy liquidation.

Domestic Fixed Income

- All fixed-income securities held in any portfolio should have a Moody's, Standard & Poor's, and/or a Fitch's credit quality rating of no less than "BBB", U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio.
- No more than 20% of the market value of the fixed income portfolio shall be rates less than single "A" quality, unless the manager has specific written authorization.
- The exposure of the portfolio to any one issuer, other than securities of the U.S. government or agencies, shall not exceed 10% of the market value of the fixed income portfolio.
- Holdings of individual issues shall be large enough for easy liquidation.
- The manager may contract to purchase securities for a fixed price at a future date beyond customary settlement provided that cash or cash equivalents are maintained sufficient to make payment in full.

International Equities

- Equity holdings in any one company shall not exceed more than 5% of any International Equity portfolio.
- Allocation to any one economic sector should not be excessive and should be consistent relative to a broadly diversified international equity market and to managers following similar style disciplines.
- Allocations to any specific country shall not be excessive relative to a broadly diversified international equity manager peer group. It is expected that the non-U.S. equity portfolio will have no more than 25% in any one country.
- The manager may enter into foreign exchange contracts on currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

Global Fixed Income

- Short-term reserves may be held in U.S. dollar denominated obligations or temporary investment vehicles available through the custodian, provided that such securities, instruments or vehicles have a maturity of one year or less.
- The majority of fixed income securities are expected to be non-U.S. dollar denominated.
- All investments, at the time of purchase, shall be investment grade and readily marketable.
- The number of issues held and their geographic and economic sector diversification shall be left to the investment manager's discretion provided, however, that the portfolio shall be appropriately diversified and consistent with the manager's stated investment approach.
- The manager may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure.
- The manager may contract to purchase securities for a fixed price at a future date beyond customary settlement provided that cash or cash equivalents are maintained sufficient to make payment in full.

Cash/Cash Equivalents

- Cash equivalent reserves shall consist of cash instruments having a quality rating of A-2, P-2 or higher. Eurodollar Certificates of Deposit, time deposits, and repurchase agreements are also acceptable investment vehicles.
- Any idle cash not invested by the investment managers shall be invested daily through an automatic interest bearing sweep vehicle managed by the custodian.

SELECTION OF MONEY MANAGERS

Management Criteria

The Board will select appropriate money managers to manage the School's assets. Managers must meet the following minimum criteria:

1. Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
2. Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross fees.
3. Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the manager.
5. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
6. Selected firms shall have no outstanding legal judgments or past judgments, which may reflect negatively upon the firm.

The *Finance Committee* may also select appropriate mutual funds to manage a portion of the Fund's assets. Mutual funds must meet the following minimum criteria:

1. Funds must correspond to the asset classes outlined in the Board's IPS. For example, the growth component of the IPS must be implemented with a mutual fund invested in growth stocks.
2. The fund's manager must have been in place for three years or more.
3. The funds must have been following the same investment strategy for at least three years.
4. The fund must have sufficient assets under management so that any single client does not represent more than 10% of the fund.

Board Conflict of Interest

In addition to the above criteria, the Board scrupulously avoids conflicts of interest between the interests of the School on one hand, and personal, professional, and business interests on the other. This includes avoiding potential and actual conflicts of interest, as well as perceptions of conflicts of interest. Accordingly, the Board and/or Finance Committee will not utilize the services of any money manager who:

- i. serves as a member of the School's Board or any of its committees or
- ii. is related to any Board member by either marriage or familial relationship
or
- iii. in which any member of the Board or their relations through marriage or family hold a majority ownership interest.

CONTROL PROCEDURES

Duties and Responsibilities of the Money Managers

The duties and responsibilities of each money manager retained by the Board include the following:

1. Managing the Fund assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Board.
2. Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.
3. Promptly informing the Board in writing regarding all significant and/or material matters and changes pertaining to the investment of Fund assets, including but not limited to:
 - a. Investment strategy
 - b. Portfolio structure
 - c. Tactical approaches
 - d. Ownership
 - e. Organizational structure
 - f. Financial condition
 - g. Professional staff
 - h. Recommendations for guideline changes
 - i. All legal material, SEC and other regulatory agency proceedings affecting the firm.
4. Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Fund set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
5. Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like Funds with like aims in accordance and compliance with applicable laws, rules and regulations from local, state and federal entities as it pertains to fiduciary duties and responsibilities.
6. Acknowledge and agree to their fiduciary responsibility to comply with the entire IPS set forth herein, and as modified in the future.

Brokerage Policy

All transactions effected for the School's investment assets will be "subject to the best price and execution." If a manager utilizes brokerage from the School's investment assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

Performance Objectives

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives.

It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Monitoring of Money Managers/Mutual Funds

Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on *peer*-performance comparisons with managers employing similar styles.

On a timely basis, but not less than four times a year, the *Finance Committee* will meet to focus on:

- Manager's adherence to the IPS guidelines
- Material changes in the mutual fund's/manager's organization, investment philosophy and/or personnel; and
- Comparisons of the mutual fund's/manager's results to appropriate indices and peer groups.

The risk associated with each mutual fund's/manager's portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

In addition to the information covered during the quarterly reviews, the Board will meet at least annually to focus on:

- The mutual fund's/manager's performance relative to mutual fund's/managers of like investment style or strategy. Each mutual fund's/manager is expected to perform in the upper half of the mutual fund's/manager's respective style universe.
- The Fund's investment performance results compared to the manager's overall composite performance figures to determine unaccounted for dispersion between the manager's reported results and the Fund's actual results.

The Board is aware that the ongoing review and analysis of mutual funds/money managers is just as important as the due diligence implemented during the mutual fund/manager selection process. Accordingly, a thorough Review and Analysis of a Mutual Fund/Money Manager will be conducted, should:

- A Mutual Fund/Manager performs in the bottom quartile (75th percentile) of their peer group over a quarterly or annual period.
- A Mutual Fund's/Manager fall in the southeast quadrant of the risk/return scatter plot for a five-year time period.
- A Mutual Fund/Manager has a five-year risk adjusted return fall below that of the median manager within the appropriate peer group.

Furthermore, performance that may require the replacement of a Mutual Fund/Manager include:

- Mutual Funds/Managers that consistently perform below the median (50th percentile) of their peer group over rolling three-year periods.
- Mutual Funds/Managers which perform below the median (50th percentile) of their peer group over a five-year period.
- Managers with negative alphas for a five-year time period.

Major organizational changes also warrant immediate review of the mutual fund/manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the Board's investment managers/mutual funds will be monitored on an ongoing basis and it is at the Board's discretion to take corrective action by replacing a manager/mutual if they deem it appropriate at any time.

Attachment A – Key Information

Name of Foundation: Bishop Garcia Diego High School, Incorporated

Foundation Officers: John Gherini, Esq. President
Ralph Iannelli Vice President
John Hebda Secretary
Carla O’Neill Finance Committee

Principal: Fr. Thomas J. Elewaut, C.J.
805/967-1266, ext 103

Investment Consultant:

Auditor: McGowan Guntermann

Attorney: