Investment Policy

KHYENTSE FOUNDATION

Guidelines for Khyentse Foundation Endowments

Approved by Khyentse Foundation Board of Directors, June 16th, 2015

I. Scope

The Investment Committee is charged by the Khyentse Foundation with the responsibility for the investment of its assets for all the Endowments.

II. Distribution requirements

- Disbursements to projects should be planned so that liquidation of assets to meet payouts, if necessary, should only happen once a year, and not more frequently, for better investment return.
- The expected annual rate of return on investments is 5%.
- For the Monastic Fund only, in the case when income is below the 5% target, or in the case when there is an emergency requiring funding, no more than 5% of principal may be liquidated. Any investment income that exceeds the 5% goal is to be treated as follows:
    - 50% to be retained as principal for reinvestment.
    - 50% can be disbursed towards projects approved by the Board.

  There is no limit on the other funds.

III. Delegation of investment and management functions

- The committee members may find it prudent to select one or multiple external investment agents to delegate investment and management functions.
- The committee members will establish the scope and terms of such engagements to meet the overall purpose of the Fund.

IV. Review of Assets

- Monthly by the committee members.
- Annually by the board of directors.

V. Overall Investment Strategy/ Risks and Return objectives

- Preservation of principal.
- Generation of Income.

VI. Specific Limitations

1. Short sales, trading on margin or in uncovered call options or commodity or stock futures, are prohibited.
2. Covered Calls and Cash-Secured Puts are allowed for a maximum of 10% of the portfolio, with the intent to generate extra income.
3. There shall be no purchase of stocks or other securities where liquidity would be restricted (i.e. Private Placements and Over the Count).

4. Short term investment shall be limited to U.S. Treasury and Federal Agency obligations, commercial paper rated ***BBB***- or above, insured certificates of deposit of banks rated ***BBB***- or above as defined by Standard & Poor's. Investment in money market funds is allowed only for those funds which restrict their investment to the above short-term instruments.
5. Corporate bonds and other debt securities shall be Investment Grade i.e., Moody's and Standard & Poor's rating of "BBB" or above.
6. Unrated Emerging Market Corporate Bonds, are allowed up to 10% of the portfolio.
7. No more than 10 % at cost of investment in debt securities shall be in a single issuer (other than the U.S. Government /Agency obligations).
8. Asset allocation will adhere to the following guidelines:
   - Maximum Equity exposure is 65% - Minimum is 0%
   - Maximum Fixed Income exposure is 100% - Minimum is 0%
   - Cash Equivalents: Maximum is 100% - Minimum is 0%
   - Alternative Investments: Maximum is 25% - Minimum is 0%
9. No more than 5% of the equity portfolio shall be invested in the stock at cost of a single company.

Vll. **Committee members to be familiar with the Uniform Prudent Investor Act** (California Probate Code Article 2.5.). See Appendix.

Revised and presented by Khyentse Foundation Investment Committee:

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Appendix

Uniform Prudent Investor Act
(California Probate Code Article 2.5.)

Article 2.5. UNIFORM PRUDENT INVESTOR ACT

#16045. Short title

This article, together with subdivision (a) of Section 16002 and Section 16003, constitutes the prudent investor rule and may be cited as the Uniform Prudent Investor Act. *(Added by Stats.1995, c.63 (S.B.222), #6.)*

#16046. Compliance; duty of trustee; exception; liability

(a) Except as provided in subdivision (b), a trustee who invests and manages trust assets owes a duty to the beneficiaries of the trusts to comply with the prudent investor rule.
(b) The settlor may expand or restrict the prudent investor rule by express provisions in the trust instrument. A trustee is not liable to a beneficiary for the trustee's good faith reliance on these express provisions. *(Added by Stats. 1995, c. 63 (S.B.222), #6.)*

#16047. Standard of care; investments and management; considerations

(a) A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution.
(b) A trustee's investment and management decisions respecting individual assets and courses of action must be evaluated not in isolation, but I the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.
(c) Among circumstances that are appropriate to consider in investing and managing trust assets are the following, to the extent relevant to the trust or its beneficiaries:
    (1) General economic conditions.
    (2) The possible effect of inflation or deflation.
    (3) The expected tax consequences of investment decisions to strategies.
    (4) The role that each investment or course of action plays within the overall trust portfolio.
    (5) The expected total return from income and the appreciation of capital.
    (6) Other resources of the beneficiaries known to the trustee as determined from information provided by the beneficiaries.
    (7) Needs for liquidity, regularity of income, and preservation or appreciation of capital.
    (8) An asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.

(d) A trustee shall make a reasonable effort to ascertain facts relevant to the investment and management of the trust assets.
(e) A trustee may invest in any kind of property or type of investment or engage in any course of action of investment strategy consistent with the standards of this chapter. *(Added by Stats. 1995, c.63 (S.B.222), #6.)*

#16048. Diversification; duty of trustee; exception
In making and implementing investment decisions, the trustee has a duty to diversity the investments of the trust unless, under the circumstances, it is prudent not to do so. *(Added by Stats. 1995, c.63 (S.B.222), #6.)*

#16049. Review of assets; time for compliance
Within a reasonable time after accepting a trusteeship or receiving trust assets, a trustee shall review the trust assets and make and implement decisions concerning the retention and disposition of assets, in order to bring the trust portfolio into compliance with the purposes, terms, distribution requirements, and other circumstances of the trust, and with the requirements of this chapter. *(Added by Stats. 1995, c.63 (S.B.222). #6.)*

#16050. Costs; incurrence
In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, overall investment strategy, purposes, and other circumstances of the trust. *(Added by Stats. 1995, c.63 (S.B.222), #6.)*

#16051. Compliance determinations; standards
Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of a trustee's decision or action and not by hindsight. *(Added by Stats.1995, c.63 (S.B.222), #6.)*

#16052. Delegation of investment and management function; standards of care; trustees and agents; liability; jurisdiction
(a) A Trustee may delegate investment and management functions as prudent under the circumstances. The trustee shall exercise prudence in the following:
    (1) Selecting an agent.
    (2) Establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust.
    (3) Periodically reviewing the agent's overall performance and compliance with the terms of the delegation.
(b) In performing a delegated function, an agent has a duty to exercise reasonable care to comply with the terms of the delegation.
(c) Except as otherwise provided in Section 16401, a trustee who complies with the requirements of the subdivision (a) is not liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.
(d) By accepting the delegation of a trust function from the trustee of a trust that is subject to the law of this state, an agent submits to the jurisdiction of the courts of this state. (Added by Stats.1995, c63 (S.B.222), #6.)

#16053. Terms or language authorizing application of chapter
The following terms or comparable language in the provisions of a trust, unless otherwise limited or modified, authorizes any investment or strategy permitted under this chapter: "investments permissible by law for investment of trust funds," "legal investments," "authorized investments," "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital," "prudent man rule," "prudent trustee rule," "prudent person rule," and "prudent investor rule." *(Added by Stats.1995, c.63 (S.B.222), #6.)*

#16054. Application of article, retroactively

This article applies to trusts existing on and created after its effective date. As applied to trusts existing on its effective date, this article governs only decisions or actions occurring after that date. *(Added by Stats. 1995, c.63 (S.B.222), #6.)*