

SONOMA STATE ENTERPRISES, INC. INVESTMENT POLICY

INVESTMENT OBJECTIVES

The long range investment goal of Sonoma State Enterprises, Inc. (SSE) is to ensure the continued health and growth of the Corporation by achieving a maximum rate of return on assets consistent with prudent investment management. This policy, which emphasizes preservation of capital, should enhance “real” asset value. “Real” asset value is defined as protection of the investment principal from its loss of purchasing power over time.

POLICY STATEMENT

The general policy of SSE shall be to diversify investments so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

It is the policy of SSE to give the Finance Committee full discretion in investment decisions subject to the restrictions stated below. SSE expects the assets to be invested with the care, skill, prudence and diligence under the circumstances prevailing from time to time that a prudent expert acting in a like capacity and familiar with such matters would use in the investment of funds of like character with similar aims.

EQUITY INVESTMENTS

Common Stock

The principal category of equity investments will be mutual funds or common stocks, with primary emphasis on high quality, investment grade stocks in companies that are financially sound and that have favorable prospects for earnings growth.

Stock investments should be diversified in terms of industry and capital size. The holding of one firm’s common stock is not to exceed 5% of that firm’s total common stock outstanding. As a means of diversification, SSE encourages investments in mutual funds and reasonable investment in international securities.

REAL ESTATE

SSE investments may also include real estate investments in professionally managed, income-producing commercial property. Such investments may be made only through professionally managed and pooled real estate mutual funds or real estate investment trusts (REIT's) offered by leading real estate managers with proven records of superior performance over time.

Gifts of income-producing real estate may be included in the portfolio provided they are consistent with these management guidelines.

FIXED-INCOME INVESTMENTS

Fixed income investments shall include short-term securities that are primarily used as working capital for cash management purposes and long-term investments with maturities of greater than one year.

Short-Term

Since short-term, fixed-income investments historically have produced the lowest return of available investment options, such investments shall be kept at the minimum level which the Finance Committee considers necessary to meet foreseeable short-term liquidity requirements. Such investments may be made in:

- Certificates of Deposit (maximum \$95,000 per bank) issued by commercial banks and insured by FDIC; U.S. Treasury Bills with a maturity of less than one year;
- Money market funds which assure safety on the basis of high credit standards and a proven record of superior performance over a period of not less than ten years;
- Commercial paper rated not less than A-1 by Standard and Poor's or P-1 by Moody's;
- Repurchase agreements secured by U.S. government securities and agencies;
- Foreign commercial banks rated no lower than I-B by Keefe, Bruyette & Woods;
- Pooled funds with demonstrably high-quality credit standards and proven records of superior performance over time;
- Or other investments as specifically approved by the Finance Committee.

Long-Term

It is expected that the largest percentage of fixed-income investments shall be invested in mutual funds or portfolios of high-quality (primarily A to AAA rated) corporate bonds, U.S. Treasury securities with maturities of more than one year, convertible preferred stocks or bonds, FNMA or GNMA bond issues, or high quality issues of foreign sovereigns and companies.

INTERNATIONAL SECURITIES

Sonoma State Enterprises encourages reasonable investment in international mutual funds or securities to enhance diversification and prudent investment. International securities include American Depository Receipts (ADR's) and securities listed on international exchanges. These issues are to possess the same high quality characteristics of domestic securities owned in the portfolio.

INVESTMENT ACTIVITY RESTRICTIONS

SSE prohibits investments which jeopardize the long-term safety of principal concept. The following types or methods of investments are prohibited as speculative:

- trading in securities on margin
- trading in commodity futures
- investments in exploration of and working interests in oil or gas wells
- the purchase of "puts," "calls," and "straddles"
- the sale and purchase of warrants and options without prior approval
- selling short

BOARD REPORTING

The Finance Committee Chair and management will provide an annual investment report to the Board of Directors.

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