

March 1, 2019

Board of Directors of the Harbor Family Fund Foundation
Frank Harbor
Marie Harbor

RE: Foundation Governance Audits

Dear Board of Directors:

Developing a governance process is central to fulfilling the trustees' duties to the Foundation. A prudent trustee will (1) identify their statutorily defined obligations, (2) adopt policies that echo these duties, and (3) execute procedures that confirm compliance with these policies. This three-step process is the framework for effective fiduciary governance for both large and small foundations. It would not be hyperbole to suggest that a foundation trustee cannot fulfill their duties of care without developing and maintaining a comprehensive governance process. The Board of the Harbor Family Fund Foundation has asked that Anodos help them fulfill three of these key duties. Following is our summary of the facts and the engagement.

Facts:

The Foundation was first funded in 1981 and has current capital of approximately \$28,000,000. The Board of the Foundation is made up of three members, and the Board has delegated investment responsibility to two advisory firms: Goldman Sachs and Merrill Lynch. Each advisory firm manages two accounts, one of fixed income and the other of equity.

At the March Board Meeting the foundation's CPA reported their impression that the cumulative fees paid by the Foundation to these investment agents appeared high and suggested that an independent fee study be conducted. Concurrent with this suggestion, the Board also felt it was time to conduct a performance study (sometimes called a benchmarking study) to evaluate the efficacy of each of their managers in order

to determine if continuing with the “two manager approach” had produced the desired results.

Scope of Work:

Fee Audit:

The Board of the Foundation recognizes its duty under the California Probate Code §18503(c)(1) to “**...only incur costs that are appropriate and reasonable in relation to the assets, overall investment strategy, purposes, and other circumstances of the trust.**” The Board has engaged Anodos to conduct an independent and unbiased evaluation of the fees charged by each manager for their oversight to determine if they are reasonable, customary and at market rate for portfolios of comparable size and complexity.

Performance Audit:

The Board of the Foundation recognizes its duty under the California Probate Code §18505(a)(3) to “**... periodically review the agent's actions in order to monitor the agent's performance and compliance with the scope and terms of the delegation.**” The Board has engaged Anodos to conduct an independent and unbiased evaluation of each investment manager’s performance taking into particular consideration the risks that have been taken by the Foundation and the return that has been produced since the inception of the relationship with each manager.

Governance Review:

The Board of the Foundation recognizes its duty under the California Probate Code §18503(b) to “**...manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.**” The Board has engaged Anodos to review the Board’s internal policies and procedures and provide evaluation, comments and suggestions on how the existing governance procedures might be improved.

The Fee:

The proposed fee for conducting the Fee Audit, Performance Audit and Governance Review for the Foundation is \$10,800 (\$3,600 for each audit). Payment shall be made at the commencement of the engagement. The report of our findings and recommendations will be delivered to the Board within 30 days of payment subject the managers' timely cooperation with our data collection requests. Along with our written report, a presentation of our findings and recommendations will be made to the Board by phone at the conclusion of the engagement. If the Board prefers that Anodos travel to Orange County to present our report, we are willing to do so subject to an additional fee of \$1,200.

Key Staff:

Josh Yager, Managing Partner – Josh is a recognized content expert on the issues of fiduciary duties relating to the management and oversight of trust assets. He lectures extensively on the policies and procedures for conducting investment manager audits to CPAs, attorneys, and professional fiduciaries throughout the country. Josh is Managing Partner at Anodos Advisors and a licensed attorney. Prior to founding Anodos in 2005, Josh worked for fifteen years as an investment advisor with Mercer Advisors.

Ryan Wolfshorndl, Partner - Ryan has been with the firm since its inception in 2005. Ryan holds the Chartered Financial Analyst (CFA®) and Certified Financial Planner (CFP®) designations. Ryan has over 10 years of experience in monitoring the activities and risk-return outcomes of investment managers. Additionally, he conducts performance attribution and other statistical analysis relevant to the investment process. This work ensures accountability, adherence to investment parameters, and clarity of expectations between clients and their managers.

Other Housekeeping Matters:

- Anodos is a Registered Investment Advisor (RIA), but does not have discretion or authority to manage securities under this or any other agreement. Specifically, Anodos is not compensated for or engaged in the business of providing advice or

analysis about specific securities, market trends, asset allocations or identification or introduction of other investment advisors ([Link to ADV2](#)).

- **Anodos is prohibited from ever serving as an investment advisor for this trust or introducing other investment advisors to the trustee. Any violation of this key contract term will result in the trustee's right to reimbursement of three times (3x) the consulting fee paid for this engagement.**
- Anodos has never been named in any legal action or investigation by the SEC, DOL or similar federal or state regulatory body.
- Anodos agrees to hold in strict confidence and not disclose any information obtained from the trustee or their agents during the course of this engagement unless authorized to do so by the trustee or compelled by law.

Conclusion:

Thank you for considering Anodos as a resource for your fiduciary governance needs. If you have any questions, please do not hesitate to contact me at 805.899.1245 or josh@anodosadvisors.com. If this proposal is acceptable, please return a signed copy of the following page by email and we will get started immediately.

Onward,

Josh Yager, Esq., CFP[®], ChFC[®], CLU[®]

ACCEPTED: Date _____

I am authorized to agree to this engagement letter on behalf of the Harbor Family Fund Foundation.

Frank Harbor, Board Chair

INVOICE

Date: March 1, 2019

Foundation Name: The Harbor Family Fund Foundation

Bill To: Board of Directors of the Harbor Family Fund Foundation
Frank Harbor
Marie Harbor

Contact Info: (949) 123-4567
Foundation Headquarters
123 Sesame St
Anywhere, CA 92859

Description: Conduct a Fee Audit and Performance Audit of the Foundation's three investment advisors: UBS, Merrill Lynch and First Republic Bank. Further, provide a Governance Review of the Foundation's internal policies and procedures.

Fee: \$10,800 one-time fee

Terms: Full payment at the commencement of the engagement

Check Payable To: Anodos Advisors
115 E. Micheltorena Street
Suite 100
Santa Barbara, CA 93101