

## UNIVERSITY CORPORATION AT MONTEREY BAY BOARD POLICY

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### **Policy 209**

### **Restricted & Operating Funds Investment Policy**

Section: 200- Investment

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#### **1) PURPOSE**

The effective management of University Corporation at Monterey Bay (“Corporation”) investments is the responsibility of the Board of Directors (“Board”). The investment management responsibilities of the Board differ from those of the management of commercial organizations. The Corporation shares many of the characteristics of a college or university in that it is exempt from income and capital gains taxation, has fiduciary responsibility for a significant amount of perpetual funds, and needs both current income and indefinite future protection of the purchasing power of these perpetual funds.

Additionally, the administrative responsibility for restricted funds received to provide current assistance to the university’s instructional programs carries with it the need to invest these funds to provide funding for the cost of Corporation operations.

The investment of proprietary funds generated by commercial activities is almost totally within the control of the Board. This policy does not include the operating cash funds. Few investment constraints exist except in the area of real estate and non-related business activities. Care must be exercised to avoid any unwise investment that could bring discredit to the Corporation or endanger its financial viability, but the Board has relative freedom in investing proprietary funds.

#### **2) POLICY**

The Corporation will comply with the California State University (“CSU”) Investment Policy. The Corporation would like to obtain the best possible return commensurate with the degree of risk that the Corporation is willing to assume in obtaining such return. The primary objective of the Corporation is to safeguard the principal. The secondary objective is to meet the liquidity needs of the Corporation. The tertiary objective is to return an acceptable yield.

The Corporation will invest the available funds of the Corporation in the most appropriate asset allocation, taking into consideration the following factors.

1. The length of time the funds will be available to invest; and
2. The projected risk and return of appropriate asset classes as determined by the investment consultant and committee.

## a) ASSET MIX

Investment decisions shall be made within the framework of the goals stated above for optimizing the total rate of return, keeping in mind the desirability of limiting year-to-year risk of income and market fluctuations. These goals require that the total rate of return of the portfolio be optimized rather than maximized. The optimal portfolio allocation is one that carefully equates expected rate of return with expected risk of all investment categories used in the portfolio.

In setting the optimal allocation of assets for the Corporation's Operating Funds, the Board hereby adopts the following strategic (long-term) asset allocation policy:

<u>Asset Class</u>	<u>Strategic Target</u>	<u>Minimum</u>	<u>Maximum</u>
<b>Domestic Equities</b>	<b>30%</b>	<b>20%</b>	<b>40%</b>
Large Cap US	30%	20%	40%
<b>International Equities</b>	<b>20%</b>	<b>15%</b>	<b>25%</b>
International Developed	20%	15%	25%
<b>Core Fixed Income</b>	<b>50%</b>	<b>40%</b>	<b>60%</b>
Core US Fixed Income	25%	20%	40%
TIPS	15%	10%	25%
Short Term Credit	10%	5%	20%
<b>Cash</b>	<b>0%</b>	<b>0%</b>	<b>3%</b>
	<b>100%</b>		

The "strategic target" asset mix, which emphasizes diversification in order to lower expected risk and to maximize expected total return to risk, is to be reviewed annually to ensure the established guidelines are still appropriate. When new allocations are being implemented, the portfolio will not be in line with the long-term targets until the new allocations are funded.

The minimum and maximum ranges within each asset class provide for investment flexibility. Any tactical asset allocation changes are to be based on a one-to-two-year horizon and should be made in accordance with the established ranges.

The Board reserves the right to adjust these limits at any time.

## INVESTMENT GUIDELINES

### Overall Guidelines

- (1) As a general statement, the Corporation wishes its investments to be confined to marketable securities.
- (2) The Corporation prohibits investments that jeopardize the safety of principal concept or non-profit status of the Corporation. The following types or methods of investments are expressly prohibited:
  - (a) Trading in securities on margin;
  - (b) Investing in working interests in oil or gas wells;
  - (c) Derivatives which increase portfolio risk above the level that could be achieved in the portfolio using only traditional investment securities. In addition, derivatives will not be used to acquire exposure to changes in the value of assets or indexes that by themselves would not be purchased for the portfolio. Derivative usage is strictly limited to mutual funds.
  - (d) Purchasing mortgages directly; and
  - (e) Unregistered or restricted stock.
- (3) The Board of Trustees of the CSU adopted a resolution urging auxiliary boards that make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investments. The Corporation Board recognizes and accepts its social responsibility with respect to the investment of funds.
- (4) Unrestricted donations of marketable securities are to be liquidated in an orderly fashion unless they conform to the investment model as determined by the Corporation's Investment Manager(s).
- (5) Mutual funds are permitted investment vehicles so long as their underlying investments meet the criteria set forth in this policy.

**ii) Equity Category Guidelines**

- (1) The equity portfolio should be well diversified to avoid undue exposure to any single economic sector, industry group, or individual security.
- (2) The holding of one firm's common stock is not to exceed 5% of that firm's total common stock outstanding.
- (3) No more than 7.5% of the equity category's portfolio shall be invested in the stock of a single company.

**iii) Fixed Income Category Guidelines**

- (1) Purchases of fixed income securities will be limited to U.S. Treasury or federal agency obligations, State of California obligations, or those U.S. Corporate bonds with ratings **as prescribed in §VI.C.2. below**

- iv)** Normally, at least 65% of assets invested in corporate bonds must be invested in straight debt corporate bonds (and/or preferred stock and convertible securities) rated a minimum of A3 by Moody's or A- by Standard & Poor's at the time of purchase. With the exception of the high-yield fund, an account or fund is allowed to hold no more than 20% of securities rated lower than Baa3 by Moody's or BBB- by Standard & Poor's.

- (1) With regard to concentration by issuer, there are no limitations placed on investment in U.S. government or federal agency guaranteed investments. No

more than 25% of the total investments in government fixed income vehicles may be in State of California Bonds. For U.S. corporate bonds, however, investments in any one issuer should:

- (a) Not represent any more than 10% of the fixed income category,
- (b) Not be more than 5% of that security's total issue, and
- (c) The security should be part of an issue worth at least \$50 million par value.

**v) Cash Equivalents Category Guidelines**

- (1) The following investments are acceptable:
  - (a) Certificates of Deposit (maximum \$250,000 per institution) – these investments will be limited to licensed (Federally Chartered) financial institutions;
  - (b) Commercial Paper – these investments will generally be limited to ratings A-1 (or better) by Standard & Poor's or P-1 (or better) by Moody's;
  - (c) U.S. Government and California State Government guaranteed securities, as well as U.S. Treasury Bills;
  - (d) Federal Agencies; and
  - (e) Other money market instruments that meet the test of high quality and liquidity.

**vi) Exceptions**

- (1) Any exception to the guidelines in §2(b) may be granted on an interim basis by mutual agreement of the Executive Director and the Board President. Such interim exceptions shall be ratified at the next regularly scheduled meeting of the Board.

Assets acquired with special restrictions on substitution or sale should be managed in strict accordance with the instruction of the donor.

**3) ADMINISTRATIVE REVIEW**

**i. Levels of Responsibility**

- (1) Board of Directors and the Investment Committee. The Board, on the advice and recommendations of the Investment Committee, is responsible for adopting the Investment Policy, selecting outside investment managers, annually reviewing the performance of outside investment advisors/managers, reviewing and approving amendments to the Operating Fund Investment Policy, and reviewing investments. The Investment Committee is responsible for recommending a prudent investment strategy for all funds available for investment, developing guidelines in order to implement those investment policies approved by the Board, and monitoring Corporation's implementation of those policies.
- (2) Corporation management. The Executive Director is responsible for Corporation management staff implementing and administering the adopted Operating Funds Investment Policy.

- (3) Investment Consultant. The Investment Consultant is responsible for advising the Investment Committee on investment policy, spending policy, asset allocation, investment manager selection, and providing performance analysis and monitoring services and education. The Investment Consultant shall prepare a quarterly performance report on the investment managers and the total assets of the portfolio. The Investment Consultant shall meet with the Investment Committee as requested.
- (4) Investment Manager(s). When appropriate, the Investment Manager(s) is (are) delegated the responsibility of investing and managing the Corporation's operating assets in accordance with this Investment Policy and all applicable law. Each Investment Manager must either be (1) registered under the Investment Company Act of 1940, (2) registered under the Investment Advisors Act of 1940, (3) a bank, as defined in that Act, (4) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the University's Operating assets, or (5) such other person or organization authorized by applicable law or regulation to function as an Investment Manager.

**ii. Review of Investment Performance**

Evaluation of the Corporation's Operating fund's performance will be on a total return basis. These returns will be viewed in the context of the Fund's objectives and relevant market indices.

- (1) Evaluation of the performance of asset groups, if applicable, will be based on the following indices:

<u>Asset Class</u>	<u>Benchmark</u>
<b>Equities</b>	
Large Cap US	S&P 500
International Developed	MSCI EAFE or MSCI ACWI ex U.S.
<b>Core Fixed Income</b>	
Core US	Bloomberg Barclays Aggregate Index
TIPS	Bloomberg Barclays US TIPS Index
Short Term Credit	ICE Bank of America 1-3 Year Treasury Index or Bloomberg Barclays US 1-5 year Credit Index
<b>Cash</b>	91 Day Treasury Bills

Subsets of equities and fixed income investments will be measured against appropriate benchmarks.

- (2) An annual investment report will be presented to the Investment Committee. Upon review and approval by the Investment Committee, the annual investment report will be presented to the Board. If there is sufficient significant investment activity and should the Investment Committee deem it appropriate, quarterly

investment reports may be presented to the Investment Committee for review and approval prior to presentation to the Board.

- (3) This Investment Policy will be reviewed at least annually to ensure its consistency with the Corporation's liquidity needs, investment objectives and expectations, and risk tolerance. The Investment Policy will also be reviewed to ensure its compliance and relevance to the current law, financial and economic trends, and to meet the cash flow requirements of the Corporation.

#### **4) RELATED DOCUMENTS**

- i.** 241-002-A: Socially Responsible Investing Policy
- ii.** RFIN 01-97-03: The California State University Investment Policy