

Policy 201

Endowment Investment Policy

Section: 200- Financial

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1) PURPOSE

This Endowment Investment Policy is intended to provide guidelines for the prudent investment of the Endowment Fund of Foundation of California State University, Monterey Bay (the “Foundation”) and to outline an overall system of investment policies and practices such that the Foundation’s ongoing financial obligations are satisfied. An additional and equally important purpose of this document and other Foundation investment-related policies is to provide donors, prospective donors, and donation recipients with information about investment performance expectations, guidelines for distribution of earnings, and levels of reimbursements of costs to the Foundation.

2) POLICY

a) Investment Objectives

Assets of the Endowment Fund (the “Fund”) of the Foundation shall be invested in accordance with this Endowment Investment Policy and in compliance with State and Federal laws and regulations.

The Fund represents the permanent funds of the Foundation, term endowments, and funds functioning like endowments, which have been contributed by various donors to provide revenue that will sponsor and support recognized functions or objectives of the University.

Two significant goals of endowment management are: 1) to preserve the purchasing power of the assets throughout time, and 2) to provide a substantial, stable flow of resources to carry out the purpose of the endowment(s). Preserving the purchasing power of assets allows future generations to benefit from the endowment at the same level as the current generation.

Specifically, recommendations from the Investment Consultant, recommendations from the Investment Committee, and subsequent action by the Foundation Board must properly balance the following overall objectives:

- i) *Return* – to produce sufficient current and continuing income from investment returns to support scholarships, special projects, and other ongoing academic activities as were intended by the donors.
- ii) *Growth* – to provide for growth of the Fund through investment in assets that have the profitability of appreciating in value.
- iii) *Safety* – to place sufficient limitations on risks associated with the implementation of the income and growth objectives and to protect the fund principal through the diversification of assets and the setting of specific quality standards.

The pursuit of the foregoing objectives must be consistent with the Foundation’s desire to obtain consistent returns through investments with the acceptance of prudent investment risks and the rejection of those investment activities deemed to be too speculative in nature.

3) INVESTMENT GOALS

Underlying the Fund’s investment goals are its needs to maintain the purchasing power of the endowment income and to protect the real value of endowment principal. The investment performance objective is to obtain a minimum total annual rate of return (after investment manager fees) equal to the spending rate outlined in the Endowment Spending Policy, plus the rate of inflation. Recognizing the volatility of both the equity and bond markets, it is understood that this objective may not be met on an annual basis. However, it is expected to be achieved when measured on a three-year rolling average basis with the understanding that purchasing power may not be maintained during low return environments.

4) ASSET MIX POLICY

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 Foundation’s endowment fund, the Foundation Board of Directors (the “Board”) hereby adopts the following strategic (long-term) asset allocation policy:

<u>Asset Class</u>	<u>Minimum</u>	<u>Strategic Target</u>	<u>Maximum</u>
Domestic Equities	22%	30%	40%
Large Cap US	15%	25%	30%
Small/Mid Cap US	3%	5%	10%
International Equities	18%	25%	30%
International Developed	8%	15%	20%
Emerging Markets	6%	10%	15%
Core Fixed Income	17%	22%	37%
Core US Fixed Income	14%	22%	35%
TIPS	0%	0%	6%
Opportunistic Fixed Income	0%	3%	7%
Emerging Market Debt	0%	3%	7%
High Yield	0%	0%	7%
Real Assets	5%	5%	16%
Real Estate	0%	5%	9%
REITs	0%	0%	8%
Real Assets Blend	0%	0%	7%
Alternatives	7%	15%	20%
Private Credit	7%	15%	20%
Cash	0%	0%	3%
		100%	

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

5) REBALANCING GUIDELINES

When available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation outlined in §IV. On a quarterly basis, the Investment Consultant will review the portfolio for rebalancing to target allocations. The investment consultant will determine the necessity of transactions based upon the criteria outlined above and, if deemed appropriate, will work with the University Corporation Controller to execute the rebalancing and inform the Committee thereafter. In addition, the Investment Committee may rebalance the portfolio back to target allocations at its periodic meetings.

Exception – The Opportunistic Fixed Income asset category will not be rebalanced automatically. It will be rebalanced at the Committee’s direction.

6) INVESTMENT GUIDELINES

a) Overall Guidelines

- i) As a general statement, the Foundation wishes its investments to be confined to marketable securities.
- ii) The Corporation prohibits investments that jeopardize the safety of principal concept or non-profit status of the Foundation. The following types or methods of investments are expressly prohibited:
 - (1) Trading in securities on margin;
 - (2) Investing in working interests in oil or gas wells;
 - (3) 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.
 - (4) Purchasing mortgages directly; and
 - (5) Unregistered or restricted stock.

- iii) The Board of Trustees of the California State University 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 Foundation Board recognizes and accepts its social responsibility with respect to the investment of funds.
- iv) Unrestricted donations of marketable securities are to be liquidated in an orderly fashion unless they conform to the investment model as determined by the Investment Manager.
- v) Mutual funds are permitted investment vehicles so long as their underlying investments meet the criteria set forth in this policy.

b) Equity Category Guidelines

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

c) Fixed Income Category Guidelines

- i) 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.
- ii) 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.
- iii) 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:
 - (1) Not represent any more than 10% of the fixed income category,
 - (2) Not be more than 5% of that security's total issue, and
 - (3) The security should be part of an issue worth at least \$50 million

par value.

- d) Cash Equivalents Category Guidelines** – The following investments are acceptable:
- i) Certificates of Deposit (maximum \$250,000 per institution) – these investments will be limited to licensed (Federally Chartered) financial institutions;
 - ii) 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;
 - iii) U.S. Government and California State Government guaranteed securities, as well as U.S. Treasury Bills;
 - iv) Federal Agencies; and
 - v) Other money market instruments that meet the test of high quality and liquidity.
- e) Exceptions** – Any exception to the guidelines herein may be granted on an interim basis by mutual agreement of the Chief Executive Officer and the Foundation Board Treasurer (if designated). Such interim exceptions shall be ratified at the next regularly scheduled meeting of the Foundation Board of Directors.

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

7) ADMINISTRATIVE REVIEW POLICIES

a) Levels of Responsibility

- i) Board of Directors/Investment Committee – The Foundation Board of Directors, on the advice of the Foundation Investment Committee, is responsible for adopting the Endowment Investment Policy, selecting outside investment managers, annually reviewing the performance of outside investment advisors/managers, reviewing and approving amendments to the Endowment Investment Policy, and reviewing investments. The Foundation 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 Auxiliary Accounting’s implementation of those policies. At least quarterly, the Investment Committee Chair will report to the Board on Fund investment performance.
- ii) Chief Executive Officer (“CEO”) – The CEO is responsible for implementing and administering the adopted Endowment Investment Policy, submitting a quarterly statement of the prior quarter’s investment activity and performance analysis, and submitting an annual report on the distribution of all earnings.
- iii) Investment Consultant – The Investment Consultant is responsible for advising the 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 monthly summary holdings report and a quarterly performance report on the investment managers and the total assets of the Foundation. The Investment Consultant shall meet with the Committee as requested.

iv) **Investment Manager(s)** – When appropriate, the Investment Manager(s) is (are) delegated the responsibility of investing and managing the Foundation’s endowment 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 Foundation’s endowment assets, or (5) such other person or organization authorized by applicable law or regulation to function as an Investment Manager.

b) **Review of Investment Performance** – Evaluation of the Fund’s performance will be on a total return basis. These returns will be viewed in the context of the Fund’s objectives, relevant market indices, and the performance of comparable college and university funds. The source document for comparison will be the NACUBO annual endowment study or other studies, reports, or indices as determined by the Foundation Board.

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

<u>Asset Class</u>	<u>Benchmark</u>
Equities	
Large Cap US	S&P 500
Small/Mid Cap US	Russell 2500
International Developed	MSCI EAFE or MSCI ACWI ex U.S.
Emerging Markets	MSCI Emerging
Core Fixed Income	
Core US	Barclays Capital Aggregate
TIPS	Barclays US TIPS Index
Opportunistic Fixed Income	
Emerging Market Debt	JPM EMBIG
High Yield	Barclays Capital High Yield
Real Assets	
Real Estate	NCREIF ODCE
REITs	FTSE NAREIT
Real Assets Blend	CPI+
Alternatives	
Private Credit	Barclays Capital High Yield CPI+5%
Cash	90 Day Treasury Bill

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

- c) **Foundation Administrative Costs** – Endowment accounts are not currently subject to an administrative fee to reimburse the Foundation for costs associated with administering the endowment account.

- d) **Transfer of Funds to Endowment Fund** – Funds may be admitted to the Fund at any time consistent with the Foundation’s fiscal policies and procedures in connection with acceptance and administration of gifts. Typically new money will be invested in the cash equivalent category until such time as the Investment Manager(s) can prudently invest those funds in the equity and fixed income components.

8) RELATED DOCUMENTS

- a) California State University Board of Trustees Resolution RFIN 7-78-6
- b) Foundation’s Socially Responsible Investing Policy
- c) Foundation’s Endowment Spending Policy