



## *Philanthropic Foundation*

### **Investment Policies, Guidelines, and Objectives**

*Approved by the Executive Committee November 21, 2014*

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#### **Purpose of Investment Policy Statement**

The Investment Plan of the CSUSB Philanthropic Foundation (“CSUSB Foundation”) was established to facilitate a clear understanding of the investment policy, guidelines, and objectives among the CSUSB Foundation, the investment committee (“Committee”), the investment consultant (“Consultant”), and the investment managers. It also sets forth the guidelines and restrictions to be followed by the Investment Managers. Each quarter, the Consultant will review with the CSUSB Foundation the performance of the portfolio and each manager’s conformity to CSUSB Foundation’s investment objectives. It is the intent of this document to be both sufficiently specific to be meaningful as well as flexible enough to be practical.

#### **The Foundation for CSUSB**

CSUSB Foundation was established in 1962. CSUSB Foundation is responsible for many activities that require financial support not provided by the state. These activities occur in all three areas of university life including instruction, research, and community service. It is incumbent upon CSUSB Foundation to operate an organization that is business-like in nature, at the highest level of professional competence, while also being entrepreneurial, to take advantage of many resources the University has to offer. As a recognized auxiliary of the California State University (CSU) system and CSUSB Foundation exists to provide the highest level of service and financial support while maintaining corporate fiscal integrity. The myriad of activities in which CSUSB Foundation is involved is a reflection of the talents and interests of faculty and staff at the University and the aggressiveness of all campus personnel in finding and taking advantage of new opportunities. While it is difficult to combine service and entrepreneurial abilities in one organizational structure, CSUSB Foundation has been extremely successful in accomplishing these goals.

Committee has been given authority by the Board of Directors to oversee CSUSB Foundation's assets by retaining professional services from investment consultants and investment managers

and delegating certain day-to-day responsibilities accordingly. Committee has been delegated authority to change money managers based upon recommendations provided by Consultant. Committee has the authority to approve or deny recommendations made to them by Consultant regarding the structure, management, and operation of CSUSB Foundation. Committee has the authority to make recommendations regarding proposed changes to this policy statement to the Executive Committee.

## Investment Plan

*The following Investment Plan has been adopted by CSUSB Foundation and may be amended as necessary from time to time:*

### ***Policy***

The portfolio shall be invested with the objective of long-term growth assets. With this long-term objective in mind, the portfolio shall be invested to provide safety through diversification in a portfolio of common stocks, bonds, cash equivalents, and other investments, all of which may reflect varying rates of return.

The investments shall also be diversified within asset classes (*e.g., equities shall be diversified by economic sector, industry, quality, and size*). Portfolio diversification provides protection against a single security or class of securities having a disproportionate impact on aggregate performance.

CSUSB Foundation endeavors to invest in strategies and investments that avoid a permanent loss of capital, with the exception of alternative investments such as venture capital. CSUSB Foundation is willing to accept a temporary loss of capital if the return to risk profile is reasonable.

### ***Laws and Regulations***

As a general rule, CSUSB Foundation will follow the Prudent Investor guidelines widely used in the investment management industry, the guidelines of the CFA Institute, and the general fiduciary standards described in the Uniform Prudent Investment Act (“UPIA”), as well as the Uniform Prudent Managers Investment Fiduciary Act (“UPMIFA”).

### ***Conflicts of Interest***

CSUSB Foundation fiduciaries are expected to uphold the highest ethical standards, to conduct themselves with professionalism and dignity, to observe and respect all legal requirements, and to carry out the investment activities in order to promote the best interest of CSUSB Foundation.

The fiduciaries are obligated to conduct investment business according to prudent person standards and to disclose or report any conflict of interest, which in their estimation will hinder judgment or compromise the interests of the CSUSB Foundation.

The fiduciaries and agents are expected to be generally knowledgeable and observant of current applicable professional standards established by UPMIFA, CFA Institute, UPIA, and those established in the Investment Objectives

CSUSB Foundation will employ a total return investment policy with the objective of preserving capital, protecting the purchasing power of the funds, and providing cash flow to assist in the funding of CSUSB Foundation's grant making goals. With these objectives in mind, CSUSB Foundation will have the following long-term risk and return objectives:

**Return:** The return objective for the total fund will be to outperform a custom benchmark made up of 75% MSCI ACWI Index and 25% Barclays Capital Aggregate Bond Index over a complete market cycle of 5-7 years. The minimum expected return is to exceed the rate of inflation (as measured by the Consumer Price Index) by a least 300 basis points on an annualized basis.

**Risk:** The total portfolio should experience less risk as measured by the standard deviation than that of a custom benchmark made up of 75% MSCI ACWI Index and 25% Barclays Capital Aggregate Bond Index over a complete market cycle of 5-7 years.

### ***Annual Spending***

The spending policy should meet current operating needs and protect the future purchasing power of CSUSB Foundation. However, spending policies which provide complete assurance against the loss of purchasing power also create a high degree of spending instability. Thus, the basic challenge is to create a policy which offers a reasonable defense against loss of purchasing power but which also stabilizes the amount available from the foundation for spending.

Taking these factors into consideration, Committee has determined that the pay-out from CSUSB Foundation, to be 4% of the 12 quarter rolling average of the market value as of December 31<sup>st</sup> of each year. For funds that have been invested for less than three full years, the following rates of spending shall be allowed:

0-1 Years	No funds shall be allocated for spending
1-2 Years	4.0% of the market value at the end of Year One
2-3 Years	4.0% of the average of the market values at the end of Years One and Two
Over 3 Years	4.0% of the average of the market values of the prior three years

If an endowment drops below its historic gift value, normally all spending will be suspended until such time as the endowment regains positive status, unless CSUSB Foundation believes it is prudent to distribute from a fund that is below its historic value.

Direction was given by the Executive Committee that we need to make sure the new policy keeps the flexibility (to make allowances where the donor has insisted on a specific spending rate) – and to ensure the use of the policy as a tool that can help build sustainable programs.

### ***Asset Allocation***

The long-term target asset allocation for the investment portfolio is recommended by Consultant and approved by CSUSB Foundation to facilitate the achievement of the long-term investment objectives within the established risk parameters.

As the allocation of funds among asset classes may be the single most important determinant of the investment performance, the assets shall be divided into the following asset classes:

<b>Asset Class</b>	<b>Strategic Allocation Target</b>	<b>Allowable Range</b>
Large Cap Equity	25.0%	17% - 33%
Small/Mid Cap Equity	7.5%	5% - 10%
Developed International Equity	20.0%	14% - 26%
Emerging Markets Equity	5.0%	0% - 7%
Real Estate (Public)	2.5%	0% - 5%
Real estate (Private)	2.5%	0% - 5%
Commodities/Natural Resources	2.5%	0% -5%
Fixed Income	25.0%	17% - 33%
Alternatives	10.0%	0% - 13%
Cash	0.0%	0% - 10%

The actual asset allocation, which will fluctuate with market conditions, will receive the regular scrutiny of Consultant, who will recommend, when appropriate, to CSUSB Foundation, making changes to the policy.

### ***Equities***

The purpose of the equity allocation is to provide principal appreciation that exceeds inflation. It is recognized that equity investments carry greater market price variability and higher expected returns than other asset classes.

The equity component should represent approximately 75% of the total assets at market value. Although the actual percentage in equity investments will vary with market conditions, levels in excess of 85% or below 60% will require authorization by Committee.

### ***Fixed Income***

The purpose of the fixed income allocation is to provide current income, to provide a stable component of return, and to reduce overall volatility.

The percentage of assets allocated to fixed income should be sufficient to ensure that neither the current income nor the principal value of the allocation declines by an intolerable amount during a period of extended deflation. The fixed income allocation should normally represent

approximately 25% of the total assets at market value. Although the actual percentage will fluctuate with market conditions, levels of less than 15% and greater than 45% will require authorization by CSUSB Foundation.

### ***Alternatives***

The purpose of the alternative allocation is to invest in assets with low correlation to traditional asset classes. Committee understands the allocation to alternative investments may not be a consistent component within the portfolio. Due to the needs for diversification and liquidity, pooled instruments may be utilized. This asset class includes, but is not limited to, hedge funds, private real estate, distressed debt, venture capital, private equity (LBOs, mezzanine, merger & acquisition), energy, natural resources, and other real assets.

### ***Cash Equivalents/Liquidity***

The percentage of total assets allocated to cash equivalents should be sufficient to assure enough liquidity to meet any disbursements. Cash equivalents may also be used as an alternative to other investments, when the investment manager feels that other asset classes carry higher than normal risk.

The cash equivalent allocation should normally represent no less than 2% of the total assets at market value. Cash can be strategically deployed if deemed appropriate by Consultant.

### ***Rebalancing***

If an asset class is out of the applicable range at the end of the quarter, that asset class may be rebalanced to the target weighting. As a general rule, any cash flows in or out of the portfolio may be used to rebalance the total fund in accordance with target asset allocation guidelines.

## **Manager's Investment Objectives and Guidelines**

*The investment manager shall have complete discretion in the management of the assets subject to the guidelines set forth herein.*

### ***Manager Guidelines – All Asset Categories***

Mutual funds, commingled funds, or limited partnerships may be used in any category. When one is selected, however, it is expected that the fund will, in general, comply with the guidelines stated with the understanding, however, that these investments will be managed according to their prospectus and limited partnership agreements, and that customization of guidelines will generally not be possible. No fund may be used without approval of CSUSB Foundation.

### ***Fixed Income Guidelines***

1. Fixed income securities may be comprised of money market instruments, U.S. Treasury Bonds, Federal Agency Obligations, Municipal Bonds, corporate bonds, mortgage backed securities, asset backed securities, and foreign government securities.
2. Intermediate Term fixed income managers will maintain average portfolio duration between 70% and 130% of the duration of the Barclays Capital Aggregate Bond Index.
3. The average portfolio quality for all fixed income managers will be investment grade or better as measured by Standard & Poor's/Moody's.
4. Intermediate Term fixed income managers in this category are expected to outperform the Barclays Capital Aggregate Bond Index net of fees over a 5-7 year market cycle.
5. Subject to the approval of the Committee, sector specific or flexible strategy fixed income investments (for example a "Credit" or "High Yield") may be used in this part of the portfolio. The Committee will approve a specific benchmark with which to measure performance.

### ***Domestic Equity Guidelines***

1. Subject to limitations noted below, investment managers may invest in equity securities listed on the principal U.S. exchanges or traded in the over-the-counter markets, including American Depository Receipts ("ADRs").
2. Convertible securities will be regarded as equity securities within the portfolio.
3. No individual equity commitment in an investment manager's portfolio (excepting mutual fund shares) should exceed 10% of the market value of the portfolio.
4. No individual equity commitment in an investment manager's portfolio should exceed 5% of the issuer's outstanding equity securities.
5. Cash equivalents may be held in the equity portfolio at the investment manager's discretion. Investment managers will be evaluated, however, based upon their performance relative to the appropriate universe as defined below.
6. All U.S. equity managers are expected to outperform their respective benchmarks, net of fees, over a 5-7 year marker cycle.

### ***International Equity – Emerging Markets – Global REITs - Commodities***

1. An individual issue should be limited to no more than 5% of the market value of the investment manager's portfolio.
2. No individual equity commitment in an investment manager's portfolio should exceed 5% of the issuer's outstanding equity securities.
3. International equity and emerging markets portfolios will be diversified across countries and sectors.
4. Cash equivalents may be held in the equity portfolio at the investment manager's discretion. Investment managers will be evaluated, however, based upon their performance relative to the appropriate equity index benchmark.
5. All international equity investment managers in this category are expected to outperform their respective benchmarks, net of fees, over a market cycle of 5-7 years.
6. All emerging markets equity investment managers in this category are expected to outperform their respective benchmarks, net of fees, over a market cycle of 5-7 years.
7. All Global REIT managers in this category are expected to outperform their respective benchmarks, net of fees, over a market cycle of 5-7 years.
8. All commodities managers in this category are expected to outperform their respective benchmarks, net of fees, over a market cycle of 5-7 years.

### ***Prohibited Transactions***

No assets shall be invested in derivatives, private placements or letter stock without prior approval by Committee. Short selling and the use of leverage are also prohibited without prior approval of Committee.

These transactions may not apply to the portfolio's alternative investments.

### ***Investment Committee***

The Investment Committee shall oversee Foundation investment programs. It shall ensure compliance with investment policies, and review quarterly investment reports. The Investment Committee shall maintain the delegated authority of the Board to manage the Foundation's investment program, including the revision and compliance with the Investment Policy. The Investment Committee shall be comprised of between 5 and 7 members. A quorum shall consist of three Investment Committee members. Decisions shall require approval of a minimum of three members of the Investment Committee.

### ***Consultant Communication***

Consultant will provide the following:

- Consultant will provide proactive advice on all aspects of the investment portfolio including, but not limited to, investment policy changes, asset allocation decisions, and investment manager termination.
- Each quarter, Consultant will review performance measurement and evaluation reporting for each investment manager and for CSUSB Foundation overall, which will include:
  1. Performance results in relation to stated objectives and policy guidelines, including both rates of return and an examination of any risk the investment manager(s) assumed in order to achieve that return.
  2. Comparison of individual investment manager performance versus the appropriate relative index for the most recent quarter, and for the 3 to 5 year period then ended (*or for shorter periods as may be appropriate*). In addition, each investment manager will be evaluated relative to their stated investment style.
- Review and discussion of any changes in economic conditions, investment manager issues, policy guidelines, or situations that might affect the performance.

Annually, Consultant will review the Statement of Investment Objectives and Policy and will recommend any appropriate changes. Consultant will, as appropriate, provide asset allocation studies as well as screen and introduce alternate investment management firms or strategies.

### ***Proxy Voting***

All individual investment managers shall be responsible for voting the proxies of their portfolio holdings. Investment managers shall be required to provide a detailed analysis of all voting activities on an annual basis (calendar year). Investment managers should vote all proxies to the best of their abilities to increase shareholder value.

### ***Investment Manager Communication***

CSUSB Foundation requires that each investment manager be responsible for preparing thorough quarterly account statements. The statements will include:

- Purchases and sales – type of security, number of shares, and price per share
- Assets – type of security, number of shares, and price per share
- Income receipts – both equity and fixed income
- Bond market values and accrued income



Investment managers are required to inform CSUSB Foundation in writing within 10 days of any change in firm ownership, organizational structure, professional personnel, or fundamental investment philosophy.

### ***Investment Manager Termination***

Investment managers may be terminated or put on probation at the discretion of Consultant and with the approval of Committee at any time.

Investment managers may be placed on probation if any of the following occur:

1. Significant outperformance or underperformance for any quarter relative to benchmark and peers
2. Trailing three year performance falls below the designated benchmark
3. Trailing three year performance falls below the median investment manager in their particular peer universe
4. Ownership changes
5. Any turnover of key investment decision makers
6. Changes in investment process or philosophy including investment style drift
7. Investment guideline violation

Once an investment manager is placed on probation, Consultant shall provide an in-depth analysis of the firm with particular attention to pertinent issues that caused the firm to be placed on probation. Consultant shall conclude this analysis with a specific recommendation to Committee. If appropriate, a special meeting shall be held to discuss the status of the investment manager.