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**TITLE: INVESTMENT POLICY**

**I. PURPOSE**

The purpose of this policy is to establish a clear understanding between University Enterprises Corporation (“UEC”) at California State University San Bernardino, the investment committee (“Committee”), the investment consultant (“Consultant”), and Investment Managers, of the investment policy, guidelines, and objectives for managing UEC’s asset portfolio. This statement outlines an overall philosophy that is sufficiently specific in expressing performance objectives to guide the Investment Managers, yet sufficiently flexible to accommodate changing economic conditions and market dynamics. This policy establishes the investment restrictions placed upon the Investment Managers and outlines procedures for performance review. These same guidelines apply to that portion of the asset portfolio self-directed by the Committee.

**II. OBJECTIVE**

The primary investment objective is to achieve risk-adjusted real returns necessary to preserve and grow capital and to support the long term and short term spending requirements of UEC. UEC and its Investment Managers must properly balance the following overall objectives:

- A. Liquidity. UEC’s investment portfolio will remain satisfactorily liquid to enable it to meet anticipated operating and cash flow requirements, which are to be analyzed continuously.
- B. Performance. Return - The long-term pool investment portfolio will be designed 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 at least 300 basis points on an annualized basis.

Risk – The long-term pool investment 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.

- C. Preservation of Capital. Sufficient limitations are placed on risks associated with the implementation of the return on investment objective and to protect the portfolio through the diversification of assets and the setting of specific quality standards.

### III. SCOPE

This policy is applicable to all funds held by UEC in the long term and short term investment pools.

- A. Long term investment pool. This pool includes certain reserve funds and is invested with a focus on long term growth of capital through asset diversification.
- B. Short term investment pool. This pool represents deposits held in trust for agency and program accounts, and reserve funds needed within the next three years. The primary goal for the short term pool is preservation of capital.

As a general rule, UEC 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”).

### IV. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

UEC will transact business only with banks, the Chancellor’s Office, the State Treasurer’s Office, and registered investment securities dealers. Regarding transactions in government securities, the dealers should be primary dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York and qualify under the U.S. Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

The Consultant will send a copy of the current statement of investment policy to all dealers approved to do business with UEC. Confirmation of the dealer's understanding of UEC's investment policy will be provided in writing by the dealer.

The Consultant will examine financial institutions, which wish to perform business with UEC, in order to confirm whether the participating financial institutions are satisfactorily capitalized, are market makers in securities appropriate to UEC's financial investment universe and agree to comply by the conditions set forth in this Investment Policy.

Any authorized investments (contained in Section VIII) can be purchased directly from the issuer.

A review of the financial condition and registration of the qualified broker/dealers and other bidders will be conducted by the Consultant at least every three (3) years. This review will be reported to the Investment Committee as an information item only.

## V. ASSET GUIDELINES AND TARGET ALLOCATION

- A. Long-term investment pool - The minimum and maximum guidelines for each investment category and the associated target allocation will typically be:

	<u>Minimum %</u>	<u>Maximum %</u>	<u>Target Allocation</u>
Cash & Cash Equivalents*	0%	15%	5%
Fixed Income	10%	40%	25%
Equities	40%	75%	60%
Alternative Investments	0%	15%	10%

\* Cash equivalents are defined as less than one-year maturities. Fixed income investments can be invested in cash equivalents as necessary.

- B. Short-term investment pool - The minimum and maximum guidelines for each investment category and the associated target allocation will typically be:

	<u>Minimum %</u>	<u>Maximum %</u>	<u>Target allocation</u>
Cash & Cash Equivalents*	60%	100%	80%
Fixed Income	0%	40%	20%

\* Cash equivalents are defined as less than one-year maturities. Fixed income investments can be invested in cash equivalents as necessary.

The investment portfolios will be rebalanced to these target percentages at least annually, or quarterly if there is a five percent (5%) or greater shift.

In the event of wide financial market fluctuations, the actual investment allocation mix can vary from the target mix with the understanding that the investment pool will be rebalanced as normal market conditions return.

## VI. INVESTMENT GUIDELINES

- A. Overall Guidelines

1. UEC prohibits investments that jeopardize the non-profit status of UEC or unduly jeopardize the safety of principal. Unless specifically authorized by

written instruction to the Consultant, the following types or methods of investments are expressly prohibited:

- a. Trading in securities on margin;
  - b. Trading in commodity futures;
  - c. Investments in working interests in oil or gas wells;
  - d. The purchase of “puts” and “calls” and “straddles;”
  - e. The sale and purchase of warrants and options without prior approval;
  - f. Selling short;
  - g. Direct investment in derivatives.
2. Mutual funds are permitted investments so long as their underlying investments meet the criteria set forth in this policy.
  3. This Investment Policy is responsive to special requirements placed on assets by granting agencies, legal agreements or other documented means within reason as determined by the UEC Board.

The following investment vehicles and limits are generally authorized for inclusion in UEC’s investment portfolio for pooling purposes:

B. Cash Equivalents Category Guidelines

The following investments are acceptable:

1. Certificates of Deposit (maximum \$250,000 per institution). These investments will be limited to licensed (Federally chartered and insured) financial institutions.
2. Commercial Paper. These investments generally will be limited to ratings A-1 (or better) by Standard and Poor’s or P-1 (or better) by Moody’s.
3. U.S. Government and California State Government guaranteed securities, as well as U.S. Treasury Bills.
4. Short term investment accounts with a maximum maturity of two years for securities held. These accounts will be limited to registered investment securities dealers.
5. Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.

6. California State University System-wide Investment Fund-Trust (SWIFT).
7. Money Market Accounts. These investments will be limited to licensed (federally chartered and insured) financial institutions.

C. Fixed Income Category 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 securities. U.S. corporate bonds must have ratings as prescribed below.
2. U.S. corporate bonds with a maximum maturity of ten years and rated a minimum of “A” or its equivalent by a nationally recognized rating (Standard and Poor’s, Moody’s and Fitch) service. Typically a maximum of 40% of the portfolio may be invested in these bonds. In the event a bond is downgraded below the minimum acceptable bond rating, the Investment Manager may continue to hold such bond until it is deemed advantageous to dispose of the bond, but under no circumstances should it take longer than six months. Approved mutual funds may invest in below investment grade bonds as part of diversified portfolios.
3. With regard to concentration by issuer, there are no limitations placed on investments in U.S. government or federal agency guaranteed investments. No more than 40% 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 more than 10% of the fixed income category;
  - b. not be more than 5% of that security’s total issue and,
  - c. be part of an issue worth at least \$50 million par value.

D. 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 portfolio should be invested in the stock of a single company.

4. UEC encourages reasonable investment in international securities to enhance diversification and prudent investment. No more than 20% of the equity category is to be invested in international securities. These issues are to possess the same high quality characteristics of domestic securities owned in the portfolio.

E. Alternative Investments Category Guidelines

1. Eligible alternative investments include commodities, hedge funds, and real estate.
2. Other eligible alternative investments are defined as investments that meet the “mission of the University” for the benefit of the University and are authorized by UEC Board resolution and supported by appropriate and documented due diligence analysis.
3. All alternative investments held in the portfolio will be evaluated against appropriate benchmarks.
4. The total value of all alternative investments typically will not exceed 15% of the portfolio.
5. The maximum maturity for any investment within this category typically will not exceed five years.
6. The alternative investments will diversify and reduce volatility of the portfolio.

F. Exceptions

Any exception to the guidelines in this Section VII A, B, C, D and/or E may be granted on an interim basis by mutual agreement of the Chair of the Board, the Executive Director and the Director of Financial Services. Such interim exceptions will be ratified or changed at the next regular meeting of the Board of Directors.

## VII. ADMINISTRATIVE AND REVIEW POLICIES

A. Levels of Responsibility

1. *Executive Director, Board Treasurer and Director of Financial Services.* The Executive Director, Board Treasurer and Director of Financial Services are responsible for implementing and administering the adopted

Investment Policy, submitting a quarterly statement of the prior quarter's investment activity and performance analysis, and preparing the investment section of the annual report.

2. *Investment Manager(s)*. The Investment Manager is responsible for making individual security buy and sell decisions and managing and reporting portfolio performance in a manner that complies with the policies, objectives and guidelines set forth herein and provide the reports stipulated in B, below.

B. *Review of Investment Performance*

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

The Consultant will arrange for investment statements to be forwarded to UEC on a monthly basis detailing the current portfolio holdings, market value, annualized yield, realized gain and income from all invested assets, and other information that is customary on the Consultant's reporting system.

The Consultant will meet with the Committee or Board of Directors as requested, at regularly scheduled meetings to present the above detailed information.

## **VIII. DELEGATION OF AUTHORITY**

Management responsibility for the investment program and written procedures for operating the investment program is under the authority of the Executive Director.

No person will engage in an investment transaction except as provided under terms of this policy and the procedures established by the Executive Director and approved by the Committee. The Director of Financial Services will establish a system of internal accounting controls to regulate the activities of subordinate representatives.

The authority to execute investment transactions affecting UEC's portfolio will be under the general direction of the Executive Director and delegated to the Director of Financial Services.

## **IX. INVESTMENT POLICY REVIEW**

The Committee will review the current portfolio mix at least annually and this Statement of Investment Policy will be reviewed at least every three (3) years to ensure consistency with the overall objectives of the preservation of capital, liquidity and return of the investment portfolio.

The Statement of 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 UEC. The investment portfolio is audited annually by UEC's independent accountants for internal controls and balances.

**Approval:**

Approved by the UEC Board of Directors