

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **ENDOWMENT AND SIMILAR FUNDS POLICY**

PURPOSE: To provide a policy and procedural framework for managing endowment and related accounts.

NEW/REVISED: Revised from December 11, 1987, version.

EFFECTIVE
DATE: March 9, 2001

REFERENCE: NACUBO College and University Business Administration
Volume 2, Fifth Edition, Chapter #10 – Endowment Management.

ENDOWMENT AND SIMILAR FUNDS POLICY

I. BACKGROUND AND PURPOSE

- A.** An endowment consists of money or other assets received for a purpose where the donor, grantor or source has specified that the principal shall be preserved.

The Foundation serves as the recipient of gifts and grants intended by donors, grantors or the University "for endowment". In this role, the Foundation may serve as the trustee or may be the absolute owner of the assets. In either case, there exists a fiduciary standard to use and account for endowment assets in a manner prescribed by accepted financial standards and under industry guidelines (see reference above), within program and policy objectives of the University, and, where applicable, in accordance with the trust instrument.

This statement provides a policy framework for managing endowment accounts. The objectives of this statement are two-fold: to support the University's Integrated Endowment Program with a systematic and interactive mechanism through which proposed endowments are evaluated and managed; and to ensure compliance with restrictions imposed by donors, and designations imposed by the University and the Board on use of funds and their earnings. The policy and process set forth in the following sections are intended to complement the Foundation's General Investment Policy and implementing investment guidelines.

B. Types of Endowments and Similar Funds

1. The Foundation shall establish and utilize a group of accounts known as the Endowment and Similar Funds. This group shall include funds whose principal is generally nonexpendable as of the date of reporting and is invested, or is available for investment, for the purpose of producing income and/ or capital growth. Resulting income, and in exceptional cases the principal, shall be available for expenditure or for inclusion in the principal.
2. The types of endowments and similar funds included are:
 - a. Permanent Endowment are funds received from a donor with the restriction that the principal is not expendable.
 - b. Term Endowment are funds -for which the donor stipulates that the principal may be expended after a stated period or upon the occurrence of a certain event.
 - c. Quasi-Endowment are funds that are established by the governing board to function like endowment funds, but may be expended at any time at the discretion of the Board.

C. Accounting and Investment Principles

The following primary principles shall govern the accounting for and reporting of funds in this group:

1. Except as may be prescribed by law or regulations, endowment funds may be commingled for investment purposes;
2. Accounting records shall include a written register on each endowment to assure accurate and complete documentation of all conditions under which such funds are accepted and used; and

3. The character of endowment funds shall be traced accurately to separate the principal of each endowment from the income earned therefrom to be available for expenditure, reinvestment, or as designated reserves.

II. POLICY

- A.** Assets of endowment funds shall not be hypothecated or pledged for any purpose, and shall not be loaned or invested in a manner inconsistent with the Foundation's investment policies.
- B.** Subject to this policy, the Executive Director is authorized to establish or amend endowments. Such action shall normally be by request of the University. An endowment statement shall include or make specific reference to the purpose, conditions and restrictions accorded to each endowment. The statement shall be approved by the University and found consistent with applicable law and regulations, and the donors or creators intent.
- C.** Threshold amounts required to fund, at a minimum level, each type of endowment have been established by the University, consistent with objectives of the University's endowment program and prudent investment management standards. Exception to any established threshold shall be approved by the University and submitted to the Executive Director for consideration.
- D.** The threshold amount designated for an endowment fund shall generally be available for investment for no less than twelve (12) consecutive months prior to the availability of earnings. Exceptions may be authorized in writing by the Executive Director upon written findings approved by the University. Assets for endowment other than cash or securities must be referred to the Executive Director for consideration.
- E.** A written register shall document each endowment. The register shall include such information as:
 1. Donor/University approval of endowment
 2. Board or Executive Director approval
 3. Endowment statement or agreement
 4. Donor name with brief biographical comments
 5. Amount/date of donation(s)

6. Type of endowment
7. Identification by endowment program component
8. Action(s) by Board, where required

III. PROCESS

- A.** Normally, the review and approval process to establish an endowment shall be as follows:
1. Endowment statement/agreement is developed between prospective donor(s), University and Foundation staff;
 2. University approves the endowment statement or agreement and requests that the Foundation establish the endowment;
 3. Donor funds proposed endowment and Foundation executes an agreement with the University when the endowment establishes an award or scholarship;
 4. Foundation takes action to accept the restricted gift and establish endowment accounts; and
 5. Foundation management takes appropriate actions to establish accounts, report to the Board quarterly, and set up fund administration in collaboration with appropriate University staff.

IV. POLICY IMPLEMENTATION

- A.** The Executive Director is authorized to establish written operating guidelines to implement this policy statement.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **NET ASSETS RESERVE POLICY**

PURPOSE: To set forth the general policy and criteria for establishing net asset reserves to ensure continued fiscal viability of operations.

NEW/REVISED: Revised from December 8, 2000 version

EFFECTIVE
DATE: September 10, 2004

NET ASSETS RESERVE POLICY

I. BACKGROUND AND PURPOSE

A. California State University Policy

The Chancellor of the California State University, on March 6, 2000, issued the Compilation of Policies and Procedures Pertaining to California State University Auxiliary Organizations – Executive Order No. 732, and directed that the Campus Presidents implement these policies.

On the subject of financial standards this policy states: Annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include:

1. A review of the management functions to ensure provisions for adequate professional management (ref: Ed. Code, 89904[b]).

2. An evaluation of the need for reserves in the following areas:
 - a. Working Capital
 - b. Current Operations
 - c. Capital Replacement
 - d. Planned future operations (including future new business requirements which have been recognized by the campus and the auxiliary organization as appropriate and within the educational mission of the campus)
3. The establishment or revision of reserves and their funding levels in accordance with the above evaluations.
4. The submission of a report annually to the President which includes a plan to build and maintain appropriate reserves

B. Accounting Profession Requirements

In June 1993, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Implementing this standard changed the reporting requirements of not-for-profit organizations. Generally, fund balances become Net Assets. Net assets are used to describe the residual amount remaining after liabilities are subtracted from assets and are split into three categories: unrestricted, temporarily restricted, or permanently restricted.

C. Operating Agreement Requirements

The operating agreement between the University and the Foundation (required for the performance of functions by the Foundation) contains the following section on the disposition of net earnings:

Auxiliary agrees to comply with Trustees policy on expenditure of funds including but not limited to Trustee guidelines for disposition of revenues in excess of expenses, and with Board of Trustee policies on maintaining appropriate reserves.

The first priority for use of net earnings is the payment of obligations incurred through Foundation functions. The second priority is the funding of equipment and maintenance reserves and working capital in such amounts as shall be deemed necessary for the effective operation of the functions.

The disposition of net earnings, determined to be in excess of the needs stated above, will be based on the approved plan to build and maintain reserves as stated in Section I (A)(4) above.

II. POLICY AND PRACTICES

A. Terms and Definitions

1. Sources of Funds

The California Polytechnic State University Foundation receives its operating capital from the following sources:

- a. Net earnings from commercial operations.
- b. Grants/Contracts indirect cost recovery.
- c. Fees for administering campus program accounts.
- d. Gifts.
- e. Investment income.

2. Applications of Funds

The funds received from the above sources are utilized for the following purposes:

- a. Invested in operational assets.
- b. Invested in Plant and fixed assets.
- c. Interfund/Intrafund loans.
- d. Held for restricted purposes.
- e. Designated for specific needs.

3. Net Assets

a. "Net Assets" is the term used to represent the residual amount remaining after liabilities are subtracted from assets. Typically, net assets are derived from net earnings; however an asset transferred from another organization adds value to both assets and net assets without creating a liability or net earnings. FAS No. 117 requires net assets to be segregated into three categories; unrestricted, temporarily restricted, and permanently restricted.

1. Unrestricted – The part of net assets that is earned from commercial operations, fees, and investment earnings.
2. Temporarily Restricted – The part of the net assets resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed restriction that either expires by the passage of time or is used up or expend as specified.
3. Permanently Restricted – The part of the net assets resulting from contributions of assets whose use by the organization is limited by donor-imposed stipulations that neither expires by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

- b. For internal reporting purposes, the Foundation augmented the FAS No. 117 net asset categories to include more definitive classifications. The added classes identify the specific purpose or program the net asset supports. The net assets classifications are:

- 1. Unrestricted Net Assets

- a. Operating – Provides unrestricted working capital.
- b. Contingency – Established for an event that may occur, but is not likely or intended.
- c. Program - Designated by the Board of Directors or Executive Director to fund current or future events and special programs.
- d. Capital Replacement – Available for renewal and replacement of plant and/or equipment.
- e. Investment in Operating Assets – Amount invested in net operating assets.

- 2. Temporarily Restricted Net Assets

- a. Program – Accumulated earnings available for specific purposes or programs.
- b. Spending – Accumulated amount of investment earnings from permanent and quasi-endowments available to support specific purposes or programs.
- c. Investment in Tangible Property – Value of donated tangible property that can be sold.
- d. Principal – Initial value of gifts received from donors.

- 3. Permanently Restricted Net Assets

- a. Principal – Initial value of gifts received from donors.
- b. Investment in Tangible Property – Value of donated tangible property that cannot be sold or disposed of.

B. Classification of Net Assets

Net Assets of the Foundation shall be classified in accordance with accepted accounting principles established by the Financial Accounting Standards Board (FASB).

C. Assignment of Net Assets

Assignment or designation of net earnings shall comply with donor-imposed restrictions, and Board of Director approved policy and budgets.

D. Delegated Authority

The Executive Director has the authority to transfer and assign unappropriated net earnings of the General Fund to the Plant Fund and Designated funds based on present and anticipated financial requirements, expected total return on future investments, general economic conditions, and programmatic need.

E. Practices

1. Application of Accounting Rules & Standards

At the close of each fiscal year the net earnings from each function shall be added to separate net asset classification accounts as required by FAS No. 117.

2. Assignment or Designation within Net Assets Classifications

Supplemental assignment or designation of net earnings within the required net assets classifications shall be done as follows:

- a. The first priority for use of net earnings shall be the assignment of funds as available to match the individual function's actual donor-imposed restriction, investment in operational assets, approved budget appropriation, audit/legal requirement, or specific program account. These transfers will be automatic, not requiring Board of Directors' approval.
- b. From net earnings of the Bookstore, Campus Dining, and General Investments, an amount equal to these functions' share of the University Services Program commitment for the next fiscal year shall be transferred to the Designated Fund to provide funding for these activities. These transfers have been authorized by the Board of Directors' approval of departmental budgets that state their budgeted contribution to University Services. If funding is inadequate for this purpose, transfers from other available net assets must cover the unfunded portion of the commitment.
- c. If a balance remains in the net earnings accounts of the Bookstore and Campus Dining after the above assignment, these funds shall be transferred to the Plant Fund as Capital Replacement funds.

- d. If a balance remains in the net earnings accounts of Sponsored Programs Administration after the above appropriations, these funds shall be transferred to a Designated Fund for appropriate allocation by the University President.
 - e. If a balance remains in the net earnings accounts for General Administration and the General Investment Pools after the above appropriations, the funds shall be transferred to the Designated or Plant Fund based on Executive Director judgment of programmatic need.
 - f. Specific Reserve goals are detailed in the document “Net Asset Funding Guidelines”, which is a supplement to this Policy and the annual Fiscal Viability Report. Annually, in conjunction with the Fiscal Viability Report, the Executive Director will provide a review of the Reserve goals and shall recommend modifications as necessary.
3. Annual Report
The Executive Director shall annually develop and present to the Board a Fiscal Viability Report. The approved report shall be forwarded to the University President for consideration and approval as the Foundation’s plan to build and maintain appropriate reserves.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **AUTHORIZATION FOR STANDING COMMITTEE ON INVESTMENTS**

PURPOSE: To provide general guidance relative to the Delegation of Authority and responsibility to a Standing Committee on Investments.

NEW/REVISED: Revised from December 7, 2001

EFFECTIVE
DATE: March 14, 2003

I. GOALS & OBJECTIVES

The extent of the investment management responsibilities of Foundation is such that it is prudent that whenever possible, the Foundation must secure and operate with continuous professional supervision of investments. The Board of Directors delegates the responsibilities related to managing investments to the Standing Committee on Investments. The Committee serves as an extension of the Board in helping to fulfill the Board's fiduciary role as trustee of invested funds and other liquid assets held by the Foundation. Thus, the Board delegates to the Investment Committee, in conjunction with management staff, the management of investments per policies of the Board and further guidelines as set by the Committee.

II. POLICY

A. General Purposes

The general purposes of the Investment Committee are to:

1. Provide the Board of Directors with consistent, reliable, and close advice on the development of policies related to investment funds;
2. Develop and implement guidelines for management in daily operations related to investment funds; and
3. Take action on behalf of the Board, where delegated by the Board.

B. Specific Authority And Responsibilities

Specific authority and responsibilities of this Investment Committee, as delegated by the Board, are as follows:

1. Review the effectiveness of investment policies, and their compliance with CSU and University policy, and, if necessary, recommend changes to the Board. Review investment, spending and asset allocation policies and recommend changes to the Board, as necessary.

2. Set investment, spending and asset allocation guidelines, in accordance with investment policies.
3. Engage and monitor Investment Consultant(s), and may designate Investment Manager(s) that will work with Investment Consultant(s).
4. Assess investment program performance and markets, and review periodic financial reports on the results of the investment program.
5. Consult with management staff and Investment Consultant(s) on decisions requiring interpretation of investment policies and guidelines.

C. Membership of the Committee

Membership of this committee includes up to four members of the Board of Directors. The Committee may also include non-Board members with professional investment experience, as the Board Chair deems necessary. The Board Chair will appoint the Board of Directors members, and the Committee Chair, as well as the non-Board members of the Committee.

D. Committee delegation to Investment Consultants

Investment Consultant(s) are authorized and required by the Investment Committee to:

1. Implement investment policies and guidelines, as interpreted by the Investment Committee;
2. Recommend policies and guidelines to the Investment Committee;
3. Hire, monitor, and terminate Investment Managers; and
4. Report to the Committee with respect to performance reviews of Investment Managers.

E. Management Staff Support to the Committee

Management staff serves in a support and advisory role to the Investment Committee, and will provide administrative support, including accounting and reporting related to investments. Management staff will also ensure that quarterly reports are produced that detail the earnings and activity in all investment accounts, and distribute the reports to the Committee and the Board. Legal Counsel will be consulted, as needed, by the Investment Committee and management staff.

F. Reports to the Board

The Investment Committee will report to the Board on a periodic and timely basis all actions taken by the Committee, any Committee recommendation for actions by the Board, and summaries of any Investment Consultant(s)' and Investment Manager(s)' reports to the Committee.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **SOCIAL RESPONSIBILITY CONCERNING INVESTMENTS**

PURPOSE: To establish a basic policy objective concerning the Foundation's social responsibility in the investment of assets.

NEW/REVISED:

EFFECTIVE
DATE: September 12, 1978 (Resolution No. 79-04)

SOCIAL RESPONSIBILITY CONCERNING INVESTMENTS

I. BACKGROUND AND PURPOSE

- A.** The Board of Trustees of the California State University and Colleges adopted a resolution urging auxiliary boards which make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies.

It is recognized that the California Polytechnic State University Foundation may, from time to time, make investments in corporations which do business abroad, and the policies of such corporations may have significant impact on the societies of the countries in which they do business.

II. POLICY

- A.** The Foundation Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.
- B.** The investment policy and practices of the Foundation shall include the evaluation of present and contemplated investments, not otherwise restricted in trust, in corporations which do business abroad in the light of said responsibility.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **INTERNAL INVESTMENT FUND
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

PURPOSE: To provide investment management direction from the Board of Directors concerning the Internal Investment Fund.

NEW/REVISED: Revised from March 14, 2003 version. As authorized by the Board of Directors on September 10, 2004

EFFECTIVE DATE: September 10, 2004

**INTERNAL INVESTMENT FUND
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

I. GOALS AND OBJECTIVES

A. Business Objectives. Underlying the Fund's Investment goals is its need to effectively manage Foundation operating cash requirements as well as to provide for the following:

1. Steady income to partially fund the Foundation's Administrative and Management budget.
2. Funding for advances to Campus Program accounts for projects and operations as approved by the Board of Directors.
3. Management of notes receivable related to appropriate non-campus investments.

B. Investment Return Objectives. Provide a return on investment of available cash which:

1. Is reasonably stable and predictable from year to year.

2. Equals or exceeds the 90-day Treasury bill rate on a consistent basis.
- C. Preservation of Capital. Protect the asset values by minimizing market value risks.

II. INVESTMENT POLICIES

- A. Permitted Investments. Typical investments may include, but are not necessarily limited to:

Instrument	Description
Cash Management Accounts or Short-Term Bond Funds — offered by reputable industry leaders.	Savings vehicles of indeterminate length with a variable rate of return.
Certificates of Deposit — a term three years or less	Timed investments issued by either a Savings and Loan or Commercial Bank with a fixed rate of return.

- B. Other Permitted Investments include:

1. Advanced Funds. For purposes of this policy, advanced funds are defined as funds provided to University departments for a specific project or program. The term of the advance will require repayment and may or may not provide for return on investment. The advance may or may not be secured. Advanced funds must be requested in writing by the Office of the President. The Foundation Executive Director has authority to approve requests up to \$250,000 and will report the advance to the Board of Directors as soon as feasible. Requests greater than \$250,000 must have the approval of the Board of Directors.
2. Program Investments. For purposes of this policy, program investments are defined as loans made with the expectation that the note will be readily marketable and provide a return on investment. They are typically secured by personal or real property. Any program investment must ultimately benefit the purpose of a University or Foundation program. Program Investments must have the approval of the Investment Committee.
3. Investments that meet the security, liquidity and yield requirements of the Internal Fund and are approved by the Investment Committee.

- C. Socially Responsible Investing. The Board of Trustees of the California State University adopted a resolution urging auxiliary boards which make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The Foundation Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.

III. **INVESTMENT MANAGEMENT GUIDELINES**

- A. Investment Discretion. Those individuals designated by Board of Directors' resolution to administer investment activities will have full discretion to invest the assets of the Fund in a prudent manner, consistent with the Fund's objectives and within guidelines that may be established by the Investment Committee.
- B. Management/Committee Communications. Management staff assigned responsibility for the investment of Internal Fund assets will conduct the investment program in accordance with this policy and oversight by the Investment Committee.

Management is expected to promptly advise the Investment Committee of any problems or changes within the investment activities that could require changes in policy.

- C. Reporting. After the end of each calendar quarter, management will report to the Investment Committee. This report will provide information on asset allocation, rate of return and significant transactions.

IV. **SPENDING RULES**

Appropriations of investment earnings will be made periodically as follows:

- A. All investment earnings will be recorded in the general investment accounts to facilitate the reporting on total investment activities.
- B. Interest credits, based on Wells Fargo Bank Money Market rate, can be transferred to individual Campus Program Fund accounts at the Executive Director's discretion.
- C. The remaining income from the Internal Investment Fund will be transferred to the General and Administrative Budget.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**
SUBJECT: **CORPORATE INVESTMENT FUND INVESTMENT GOALS,
OBJECTIVES AND POLICIES**

PURPOSE: To provide investment management direction from the Board of Directors concerning the Corporate Investment Fund.

NEW/REVISED: Revised from April 11, 1997 version. Revision by Investment Committee as authorized by Board of Directors on March 19, 2004.

EFFECTIVE DATE: March 19, 2004

**CORPORATE INVESTMENT FUND
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

I. GOALS AND OBJECTIVES

- A. Business Objectives.** Underlying the Fund's Investment goals are its needs to provide for the future financial needs of:
1. The Foundation's Administrative and Management operations -- including overhead costs which would otherwise be charged to ongoing operations.
 2. The Foundation Auxiliary Activities -- including maintenance and expansion programs.
 3. The University Services Programs.
- B. Investment Return Objectives.** Provide a total return, net of fees, of 5.0% after the general inflation rate as measured by the U.S. Department of Labor Consumer Price Index – Western Region. The return should be reasonably stable and predictable and will be measured in rolling ten year

periods. Total return can include dividends, interest and both realized and unrealized market value changes. The Investment mix of equities and fixed income securities shall be consistent with the target return and stability objectives. It is acknowledged that these objectives will require a substantial investment in equities.

- C. Spending Objectives. Appropriations will be made on a fiscal year basis, and will be consistent with the approved General and Administrative Budget.

II. ALLOWABLE INVESTMENTS

General policy shall be to diversify investments among both equity and fixed-income securities. Allowable investments will be:

- A. Equity Investments. The principal category of equity investments will be common stocks. Stock investments should be diversified by industry, capitalization size, relative value and nation of origin. Accordingly, the Board's Standing Committee on Investments (Investment Committee) will establish, document and make available for review by the Board the appropriate allocations and limits within these diversifying categories.
- B. Fixed Income Investments. The principal category of fixed income investments will be domestic, high-quality intermediate or long-term corporate and Treasury bonds. Investments in professionally managed below-grade instruments or international instruments may be included subject to limitations adopted by the Investment Committee.

Short-term, cash-equivalent investments are appropriate as a depository for income distributions or as needed for temporary placement of funds directed for later investment to longer-term capital markets.

- C. Other Investments. If they meet policy return and risk requirements, other investments such as individual real estate, private distressed securities, venture capital, hedge funds or other private equity may be authorized by the Investment Committee.
- D. Prohibited Investments. The fund may not purchase investments in commodities or letter stock. In addition, the fund will not engage in short sales or purchases on margin.

III. SPENDING RULES

- A. Appropriations. Appropriations of investment earnings will be made on a fiscal year basis, and will be consistent with the approved General and Administrative Budget.
- B. Investment Reserve.
 - 1. Any income from dividends, interest, and capital appreciation in excess of the appropriation will be reinvested. The reinvested income will be identified as the General Fund Investment Reserve.
 - 2. To the extent that the current year's total return is insufficient to meet the announced appropriation, reinvested prior year's income held in the General Fund Investment Reserve may be drawn upon.

IV. ADMINISTRATION

- A. Custodial Arrangements. All marketable securities will be held by an operating custodian. The custodian may be a bank or securities brokerage firm with a minimum of capital and surplus of \$500,000,000. Securities may be held in the nominee name of the custodian but must be held separate and apart from, and may not be co-mingled with the assets of the custodian. The terms and conditions of this custodial relationship shall be detailed in a written agreement.
- B. Process. It is the charge of the Investment Committee and staff to implement the policies set forth above. The Investment Committee shall have discretion to establish and document specific guidelines necessary to meet the Corporate Pool's goals, objectives and policies. The Investment Committee may utilize investment consultants and managers to achieve their goals.

The Investment Committee will make its documented guidelines available to the Board of Directors and will periodically advise the Board of any change(s) to the document.

V. SOCIALLY RESPONSIBLE INVESTING

The Board of Trustees of the California State University adopted a resolution urging auxiliary boards which make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The Foundation Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **THE UNIVERSITY PROGRAM ENDOWMENT FUND
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

PURPOSE: To provide investment management direction from the Board of Directors concerning the University Program Endowment Fund, which encompasses financial aid and program support endowments.

NEW/REVISED: Revised from March 14, 2003 version. Revision by Investment Committee as authorized by Board of Directors on September 23, 2005.

EFFECTIVE
DATE: September 23, 2005

**THE UNIVERSITY PROGRAM ENDOWMENT FUND
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

I. GOALS AND OBJECTIVES

- A.** Business Objectives. Underlying the Fund's investment goals are its needs to maintain the purchasing power of endowment income and protect the real value of endowment principal in perpetuity.
- B.** Investment Return Objectives. Provide a total return, net of fees, of 5.5% after the general inflation rate as measured by the U.S. Department of Labor Consumer Price Index – Western Region. The return should be reasonably stable and predictable and will be measured in rolling ten year periods. Total return can include dividends, interest and both realized and unrealized market value changes. 5.5% is the sum of the spending rate (4.5%) plus the estimated higher education inflation premium (1.0%) over the general inflation rate. The Investment mix of equities and fixed income securities shall be consistent with the target return and stability objectives.

It is acknowledged that these objectives will require a substantial investment in equities.

- C. Spending Objectives. Follow a spending rule (payout rate) that provides a stable, predictable level of spending for the endowed purposes, and for a rate of growth in the endowment that approximates the rate of inflation.

II. ALLOWABLE INVESTMENTS

General policy shall be to diversify investments among both equity and fixed-income securities. Allowable investments will be:

- A. Equity Investments. The principal category of equity investments will be common stocks. Stock investments should be diversified by industry, capitalization size, relative value and nation of origin. Accordingly, the Board's Standing Committee on Investments (Investment Committee) will establish, document and make available for review by the Board the appropriate allocations and limits within these diversifying categories.
- B. Fixed Income Investments. The principal category of fixed income investments will be domestic, high-quality intermediate or long-term corporate and Treasury bonds. Investments in professionally managed below-grade instruments or international instruments may be included subject to limitations adopted by the Investment Committee.

Short-term, cash-equivalent investments are appropriate as a depository for income distributions or as needed for temporary placement of funds directed for later investment to longer-term capital markets.

- C. Other Investments. Other investments such as individual real estate, private distressed securities, venture capital, domestic and foreign private equity, directional and non-directional hedge funds or commodities (including energy and natural resources) may be utilized in the endowment portfolio if authorized by the Investment Committee after appropriate review and analysis of the role of the investment in the portfolio and a determination that the expected risk and return profile are in alignment with overall portfolio objectives and policies. It is expected that such other investments will be made utilizing diversified pools of assets.
- D. Prohibited Investments. The fund may not purchase investments in letter stock or individual commodities other than as a broad group of commodities might exist in a diversified fund which has been approved by the Investment Committee. In addition, the fund may not engage in short sales or purchases on margin other than as they might exist in a

diversified fund which has been approved by the Investment Committee. Gifts of prohibited investments will be liquidated as soon as feasible.

III. SPENDING RULES

- A. The spending rate of each endowment will be 4.5% of its average market value on the last day of each of the twelve quarters immediately preceding the year in which the payouts are to be made.

Payouts for scholarships will generally be made at the beginning of the academic year. Payouts for awards will generally be made during the spring quarter. Payouts for university programs will generally be made at the end of the academic year.

- B. A spending reserve will be established for every endowment. Spending reserves will consist of the endowment's dividends, interest, capital appreciation and depreciation and, if applicable, transfers in of funds already held by the University. Payouts will be netted against spending reserve.
- C. To the extent that the current year's total return is insufficient to meet the announced payout, reinvested prior years' income held in the spending reserve may be drawn upon. In the event that the spending reserve is not sufficient to make the entire current year's payout, only those funds available in the spending reserve will be distributed. If there are no funds available in the spending reserve, no payout will occur.
- D. Payouts for endowments reaching threshold in the current fiscal year will be based on 4.5% of the average market value of the last day of the preceding calendar year.

IV. ADMINISTRATION

- A. Custodial Arrangements. All marketable securities will be held by a bonded, notable and nationally recognized operating custodian. The terms and conditions of this custodial relationship shall be detailed in a written agreement.
- B. Process. It is the charge of the Investment Committee and staff to implement the policies set forth above. The Investment Committee shall have discretion to establish and document specific guidelines necessary to meet the endowment pool's goals, objectives and policies. The

Investment Committee may utilize investment consultants and managers to achieve their goals.

The Investment Committee will make its documented guidelines available to the Board of Directors and will periodically advise the Board of any change(s) to the document.

V. SOCIALLY RESPONSIBLE INVESTING

The Board of Trustees of the California State University adopted a resolution urging auxiliary boards which make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The Foundation Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **SPECIAL ENDOWMENT FUNDS INVESTMENT GOALS, OBJECTIVES AND POLICIES**

PURPOSE: To provide investment management direction from the Board of Directors concerning Special Endowment Funds.

NEW/REVISED: Revised from May 20, 1988, version.

EFFECTIVE DATE: February 24, 1989

**SPECIAL ENDOWMENT FUNDS
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

I. GOALS AND OBJECTIVES

A. Business Objectives. Provide direction for separate investment of endowment funds in the following circumstances:

1. Endowment gift instruments that prohibit pooling or commingling of funds.
2. Endowment gifts when the donors prefer to fund a program requiring a higher level of annual support than provided by the spending rules of the unitized investment pools.
3. Term endowments that may make the investment in market sensitive securities inadvisable.
4. Quasi-endowments that are not intended to be perpetual investments.
5. Endowment gifts received prior to the endowment attaining the threshold level.

- B. Investment Return Objectives.** Provides a return on investments which:
1. Is reasonably stable and predictable from year to year.
 2. Equals or exceeds the 90 day treasury bill rate on a consistent basis.
- C. Preservation of Capital.** The fund is generally expected to preserve capital by avoiding investment in common stock or market sensitive long-term bonds.
- D. Spending Objectives.** Follow a spending rule that provides a stable, predictable level of spending for the endowed purposes.

II. INVESTMENT POLICIES

- A. Permitted Investments.** The separate investment of individual endowment funds will generally not permit the diversification required for equity investments. Primary investment of these funds shall, therefore, be in governmental and corporate bonds and fully insured accounts. Typical investments are:
1. The Common Fund Short-Term Account
 2. Savings and Loan certificates of deposit to the limit insured by F.S.L.I.C.
 3. Commercial bank certificates of deposit to the limit insured by F.D.L.I.C,
 4. Treasury bills and bonds.
 5. Corporate bonds rated "A" or higher by Moody's and Standard and Poor.
 6. Miscellaneous obligations issued or guaranteed by the U.S. Government.
 7. Assets received from donors.
 8. Other investments that meet the security, liquidity and yield requirements and are approved by the Investment Committee.

- B. Prohibited Transactions. These funds may not be invested in companies doing business in South Africa.

III. **INVESTMENT MANAGEMENT GUIDELINES**

- A. Investment Discretion. Those individuals designated by Board of Directors' resolution to administer investment activities will have full discretion to invest the assets of the Fund's in a prudent manner, consistent with the Fund's objectives and within guidelines that may be established by the Investment Committee.

- B. Manager/Foundation Communications.

1. Management staff assigned responsibility for investments will conduct the investment program in accordance with this policy and with guidelines established by the Investment Committee.
2. Management is expected to promptly advise the Investment Committee of any problems or changes within the investment activities that could require changes in policy.

- C. Reporting. After the end of each calendar quarter, management will report to the Investment Committee. This report will provide information on asset allocation, rate of return and significant transactions.

- D. Evaluating Manager Performance.

1. Evaluation will primarily be measured on the ability of management staff to attain the goal of equaling or exceeding the 90 day treasury bill rate.

IV. **SPENDING RULES**

- A. Appropriations. Appropriations will be made on a fiscal year basis, and will be based on the individual endowment agreement.

- B. Investment Reserve. Any income in excess of the appropriation will be reinvested. The reinvested income will be identified as a Spending Reserve. To the extent that the current year earnings are insufficient to meet the appropriation need, funds held in the Spending Reserve may be drawn upon.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **LIFE INCOME FUNDS INVESTMENT GOALS, OBJECTIVES AND POLICIES**

PURPOSE: To provide direction for the investment of trust assets held in the Life Income Fund.

NEW/REVISED: Revised from February 24, 1989, version.

EFFECTIVE DATE: June 7, 1991

**LIFE INCOME FUNDS
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

I. BACKGROUND AND PURPOSE

- A. Business Objective:** To provide a program for the investment of assets held by the Foundation as trustee for life income funds that has, as an objective, the achievement of optimum total return given:
- 1) The yield requirement of the trust instrument; and
 - 2) An acceptable level of portfolio risk.
- B. Investment Return Objective:** To provide sufficient current income to meet required payments to each life income beneficiary, while preserving and appropriately enhancing remainder value.
- C. Preservation of Capital:** To protect asset values by minimizing market value risks.
- D. Spending Objective:** To provide income to be distributed as stipulated in each instrument.

II. INVESTMENT POLICIES

- A. **Permitted Investments.** The primary investments are to be invested in a diversified mix of mutual funds, within the following asset classes:

- Domestic Small Capitalization Stocks
- Domestic Large Capitalization Stocks
- International Small & Large Capitalization Stocks
- Real Estate (primarily REITs)
- High Grade Bonds
- *High Yield Bonds
- *International Bonds
- Precious Metals
- Short Term Investments

*No international bond or high yield bond mutual fund will consist of more than 7% of any portfolio.

Other investment vehicles permitted are common stocks, U.S. Government obligations, corporate bonds & cash equivalents. Trust deed notes received as initial trust assets or as a result of the sale of trust real estate and California Polytechnic State University Foundation's Pooled Income Fund are also permitted investments.

- B. **Prohibited Transactions.** Eligible securities for the investment of trust assets shall be limited to those listed under II.A. above.
- C. **Asset Allocation.** Assets received from life-income donors to fund trusts may be held as trust investments or converted to other investments as the circumstances warrant.
- D. **Custodial Arrangements.** All marketable securities will be held by a custodian broker-dealer, who is registered with the Securities & Exchange Commission. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian, with the custodian being approved by the Investment Committee.

III. INVESTMENT MANAGEMENT

- A. **Investment Discretion.**

1. The assets of individual life income trusts may be invested separately or may be pooled with assets of other trusts, but shall not be commingled with Foundation general funds or endowment funds. Trust assets may not be invested in any

vehicle or manner that is in conflict with the terms of the trust instrument.

2. All trust assets shall be fully invested in instruments and accounts that provide optimum security, liquidity, and cash flow timed to meet the income distribution requirements of each instrument.

B. Manager/Foundation Communications.

1. All investment managers will acknowledge, in writing, the receipt of this statement and the acceptance of its terms. If any investment manager or consultant believes at any time that changes to this statement, or the fund's asset allocation mix, are advisable, it will be the manager's or consultant's responsibility to recommend such changes.
2. Each investment manager is expected to promptly advise the Foundation of any change in its investment philosophy, decision making structure and procedures, or investment personnel.

C. Reporting. After the end of each calendar quarter, all investment actions taken by the investment managers on behalf of the fund will be reviewed. Within 30 days of year-end, the investment managers will advise the Investment Committee that such actions were consistent with the guidelines of the fund, as well as the extent of any inconsistency.

IV. SPENDING RULES

A. Appropriations.

1. Individual investments of trust assets will be accounted in the appropriate accounts, and income will be distributed as stipulated in each instrument.
2. Pooled investment records will be maintained for pooled investments, documenting each trust's proportionate share in the pool. Pool income shall be distributed on a regular periodic basis, no less than four times per calendar year.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **EXTERNAL INVESTMENT MANAGEMENT SERVICES**

PURPOSE: To provide management with appropriate authority and standards of practice to offer and administer investment management services to qualified external entities.

NEW/REVISED: New

EFFECTIVE
DATE: August 21, 1998

I. BACKGROUND AND PURPOSE

- A.** The University's mission is expressed in broad terms that includes appropriate support to and the enhancement of University-related organizations and community-based services. From time to time, the University receives requests from such external entities to provide investment management services through the Cal Poly Foundation.
- B.** California law (Cal. Corp Code Sec. 10250 et seq.) authorizes the Foundation, as a nonprofit public benefit corporation, to establish one or more common trust funds for the purpose of providing investment management services to other qualified entities.
- C.** In response to the University's objective of providing an effective investment program option to affiliated and community-based nonprofit organizations, the Foundation has developed an External Investment Management Services program. This policy statement authorizes the Executive Director to administer such a program, and establishes appropriate program standards.

II. Policy and Practices

- A.** The Foundation may offer investment management services (EIMS) over the funds of external entities under standards and conditions set forth below.
- B.** EIMS requires the University President or a designee to first make a formal determination that the external entity requesting such services is qualified as an organization affiliated with the University.
- C.** EIMS clients shall execute and be bound by an Investment Management Services Agreement and fee schedule in a form authorized by the Executive Director.
- D.** EIMS client funds shall be accounted for as separate common trust fund accounts, but may be invested on a pooled basis under the endowment fund investment policy adopted by the Board of Directors.
- E.** The Foundation acts in a fiduciary capacity over all EIMS funds, but such funds are not subject to the general requirements of California trust law.

III. IMPLEMENTATION

- A.** The Executive Director is authorized to develop and administer the EIMS Program consistent with this Policy Statement.
- B.** Appropriate Program Management Guidelines may be established by the Executive Director to administer the Program.
- C.** An initial Program Business Plan and Budget shall be developed and recommended to the Board of Directors. This Program shall be reviewed and authorized annually through the normal budget review process.

SECTION: **POLICY STATEMENT - GENERAL AND ADMINISTRATIVE**

SUBJECT: **THE FACILITIES INVESTMENT FUND
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

PURPOSE: To provide investment management direction from the Board of Directors concerning the Facilities Investment Fund, which encompasses funds designated for certain facility construction and renovation projects.

NEW/REVISED: Revised from December 5, 2003 version. As authorized by the Board of Directors on September 10, 2004

EFFECTIVE
DATE: September 10, 2004

**THE FACILITIES INVESTMENT FUND
INVESTMENT GOALS, OBJECTIVES AND POLICIES**

I. PARTICIPATION REQUIREMENTS

- A.** Construction and Renovation. The Facilities Investment Fund exists to hold donor gifts dedicated to the construction of new facilities and/or substantial improvements to existing facilities. Substantial improvements are defined as those at a minimum cost of \$250,000.
- B.** Minimum Balance and Term. The minimum account balance shall be \$100,000 per building or renovation project and the minimum term one year.

II. GOALS AND OBJECTIVES

- A. Business Objectives. Underlying the Fund's investment goals are its needs to protect and return to depositors full principal value and provide a guaranteed rate of return to pool owners and incremental earnings to the Corporation.
- B. Investment Return Objectives. To provide a return, which exceeds the 90-Day Treasury Bill Yield net of fees, fund a reserve for periods of market fluctuation and generate earnings for the Corporation.
- C. Spending Objectives. Fund principal is expected to be withdrawn based upon predetermined schedules. Withdrawals would include return of principal and allocated earnings, if any.

III. ALLOWABLE INVESTMENTS

General policy shall be to invest in diversified cash management funds further comprised of cash vehicles and fixed-income securities.

Allowable investments will be:

- A. Cash Vehicles. Cash and highly liquid cash-equivalent investments will be appropriate for this fund. Normal cash-equivalent and treasury management investments often include sub-asset categories. These may be considered with the approval of the Investment Committee.
- B. Fixed Income Investments. The principal categories of fixed income investment will be domestic, high-quality short-term agency and Treasury bonds or bond funds. Investments in professionally managed corporate, below investment-grade or international instruments may be included subject to limitations adopted by the Investment Committee.
- C. Other Investments. Other funds may be included subject to limitations adopted by the Investment Committee.

IV. ALLOCATION OF EARNINGS

The Fund will operate as a separate investment pool. Guaranteed earnings equivalent to the 90-Day Treasury Bill Yield will be allocated to each participant on a monthly basis. Actual net earnings of the Fund will be maintained in the Fund to satisfy the payment of guaranteed earnings to each participant.

Associated parameters will be:

- A. Guaranteed Earnings. To participate in a particular month's earnings, deposits must be made within the first five calendar days of that month or withdrawals taken within the last five calendar days of that month.
- B. Early Withdrawal. Withdrawals made prior to the one-year investment term will result in the loss of all earnings. Forfeited earnings will be maintained in the Fund to satisfy the payment of guaranteed earnings to each participant.
- C. Actual Earnings. Earnings in excess of guaranteed earnings may be retained in the Fund as a reserve against possible future underperformance versus the guarantee. The Investment Committee will determine the level of the reserve. Earnings in excess of the reserve may be distributed at the discretion of the Corporation.
- D. Principal Risk. The fund's primary objective is to protect principal. The fund policies and guidelines reflect this objective.

V. SPENDING RULES

- A. Written Request. All withdrawals must be requested in writing at least 30 days in advance and have the approval of the appropriate Dean or University personnel.
- B. Minimum Withdrawal. The minimum withdrawal shall be \$100,000.

VI. ADMINISTRATION

- A. Custodial Arrangements. All marketable securities will be held by an operating custodian. The custodian may be a bank or securities brokerage firm. Securities may be held in the nominee name of the custodian but must be held separate and apart from, and may not be commingled with the assets of the custodian. The terms and conditions of this custodial relationship shall be detailed in writing.
- B. Process. It is the charge of the Investment Committee and staff to implement the policies set forth above. The Investment Committee shall have discretion to establish and document specific guidelines necessary to meet the Facilities Investment Fund goals, objectives and policies. The Investment Committee may utilize investment consultants and managers to achieve their goals.

The Investment Committee will make its documented guidelines available to the Board of Directors and will periodically advise the Board of any change(s) to the document.

VII. SOCIALLY RESPONSIBLE INVESTING

The Board of Trustees of the California State University adopted a resolution urging auxiliary boards, which make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The Foundation Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.