

## **INVESTMENT POLICY**

### **MISSION**

The mission of California State Fullerton Philanthropic Foundation (“CSFPF” or “Foundation”) is to support the people and programs of California State University, Fullerton (“CSUF”) through the pursuit, acquisition, and stewardship of private support; oversight and management of philanthropic funds; and advocacy of university needs and successes.

### **PURPOSE**

The purpose of this Investment Policy Statement (“IPS”) is to establish a clear understanding between the Cal State Fullerton Philanthropic Foundation and Investment Advisors as to the investment goals, objectives and management policies applicable to the Cal State Fullerton Philanthropic Foundation Portfolio. The Portfolio assets consist of all funds and fund pools (as further defined herein) under control, management and stewardship of the Foundation. Hereinafter the Cal State Fullerton Philanthropic Foundation/California State University, Fullerton will be referred to as Investor, and hereinafter Investment Advisors will be referred to as Advisor. This IPS will:

- Establish reasonable expectations, objectives and guidelines in the investment of the Portfolio’s assets
- Create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable to the Investor, including:
  - Describing an appropriate risk posture for the investment of the Investor’s Portfolio
  - Specifying the target asset allocation policy
  - Establishing investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets
  - Specifying the criteria for evaluating the performance of the Portfolio’s assets
  - Define the responsibilities of the Investor and the Advisor
  - Encourage effective communication between the investment manager(s) and the Investor

The principal reason for developing a long-term investment policy and for putting it in writing is to enable the Foundation fiduciaries to protect the Portfolio from ad hoc revisions of sound long-term policy. The written investment policy will help maintain a long-term perspective when short-term market movements may be distressing and the investment strategy might otherwise be questioned.

This IPS is not a contract. The Advisor and the Investor use it at their own discretion. This IPS is intended to be a summary of an investment philosophy and the procedures that provide guidance for the Investor and the Advisor. The policies described in this IPS should be dynamic. These policies should reflect the Investor’s current status and philosophy regarding the investment of the Portfolio. These policies will be reviewed, at a minimum, every three years and make revisions as necessary to ensure they adequately reflect any changes related to the Portfolio, to the Investor or to the capital markets. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined herein.

### **Responsibilities of the Board**

- The Board has sole responsibility for the investment of the Foundation's assets.
- The Board is responsible for the development, approval and amendment of this IPS and for the compliance of the Foundation investment activities with it.
- The Board is responsible for hiring the Advisor to provide the professional expertise for the management of the Foundation's assets.
- The Board will monitor the performance of the Advisor and the Foundation's investments.

### **Responsibilities of the Investment Committee**

- The Investment Committee has the responsibility to take action regarding the investment of the Foundation's assets, consistent with the provisions of this policy.
- Subject to the authority and approval of the Board, the Investment Committee is responsible for recommending the hiring of the Advisor to provide the professional expertise for the management of the Foundation's assets.
- The Investment Committee will monitor the performance of the Advisor and the Foundation's investments on a regular basis and report its findings to the Board.
- The Investment Committee will review the IPS.
- Define the investment objectives and policies of the Portfolio.
- Direct Advisor to make changes to the investment policy and to oversee and to approve or disapprove Advisor recommendations with regard to policy, guidelines, objectives and specific investments on a timely basis.
- Provide Advisor with all relevant information on Investor financial conditions and risk tolerances and promptly shall notify the Advisor of any changes to this information.

### **Responsibilities of the Advisor**

Advisor is expected to manage the Portfolio in a manner consistent with this IPS and in accordance with State and Federal law and the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Advisor is a Registered Investment Advisor and shall act as the investment advisor and fiduciary to the Investor until the Investor decides otherwise. Advisor shall be responsible for:

- Designing, recommending and implementing an appropriate asset allocation consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
- Recommending an appropriate custodian to safeguard Investors assets.
- Advising the Investor about the selection of and the allocation of asset categories.
- Identifying specific assets and investment managers within each asset category.
- Ensuring that the custodian provides Investor with a current prospectus, where applicable, for each investment proposed for the Portfolio.
- Monitoring the performance of all selected assets.
- Recommending changes to any of the above.
- Periodically reviewing the suitability of the investments for the Investor, meet with the Investor at least twice each year, and being available at such other times within reason at the Investors request.
- Preparing and presenting appropriate reports.

## INVESTMENT MANAGEMENT

In managing and investing funds, except as otherwise stated in a gift agreement, the Foundation will consider all of the following factors.

- General economic conditions.
- The possible effect of inflation or deflation.
- The expected tax consequences, if any, of investment decisions or strategies.
- The role that each investment or course of action plays within the overall investment portfolio of the fund.
- The expected total return from income and the appreciation of investments.
- Other resources of the institution.
- The needs of the institution and the fund to make distributions and to preserve capital.
- An asset's special relationship or special value, if any, to the charitable purpose of the institution.

Management and investment decisions about an individual asset will not be made in isolation, but rather, in the context of the Foundation's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.

Except as otherwise prohibited by law, the Foundation may invest in any kind of property or type of investment consistent with this section.

Within a reasonable time after receiving property, the Foundation shall make and carry out decisions concerning the retention or disposition of the property or to rebalancing the Portfolio, in order to bring the fund into compliance with the purposes, terms, and distribution requirements of the Foundation as necessary to meet other circumstances of the Foundation and the requirements of this part.

### **Investment Objectives of the Portfolio's Endowment Fund Pool**

The following strategic guidelines apply to the Portfolio's Endowment Fund pool which will employ a total return investment policy with the objective of preserving the endowment's capital, protecting the purchasing power of the funds, and providing cash flows to assist in the funding of the Foundation's spending goals.

The Foundation will from time to time adjust the permitted allocation to cash in order to accommodate the need for quick exits from asset classes or products in the event of economic events, departures of key fund

managers and investors which might adversely impact the overall Endowment Fund portfolio should the Foundation stay invested in that asset instead of making a timely move.

|                           |                                                                                                                                                                                                                                            |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Liquid Assets</i>      | Assets invested in funds with daily, weekly or monthly liquidity with the underlying assets generally considered to have daily liquidity.                                                                                                  |
| <i>Semi-Liquid Assets</i> | Assets invested in funds with quarterly, semi-annual, or annual liquidity with a majority of underlying assets generally considered liquid.                                                                                                |
| <i>Illiquid Assets</i>    | Assets invested in funds that do not provide liquidity within one year from the inception of the investment based upon the stated terms of the funds. Typically, the funds have multi-year investment periods with 7 to 12 year life span. |

In order to meet the overall liquidity needs of the Foundation, no more than 15% of the Endowment Fund portfolio, +/- 10% at cost, may be invested in illiquid assets. Due to the illiquidity of alternative investments and the volatility of capital markets, there may be times when the asset allocation is outside the investment policy collars. As liquidity opens within the alternative investment programs or market volatility presents re-balancing opportunities, the Advisor or Investment Committee will rebalance within the strategic guidelines.

### **Liquidity**

Investor has expressed a need to maintain a minimum level of cash or cash equivalents in the Investor's Endowment Fund portfolio at all times. Therefore, approximately 3% of the Endowment Fund portfolio shall remain in cash or cash equivalents at all times. If the cash balance is less than the above stated minimum, then dividends and income should not be automatically reinvested and all new contributions should be added to the cash balance until the above minimum is attained.

### **Diversification**

Investment of the Investor's Endowment funds shall be limited to individual marketable securities or packaged products (for example, mutual funds or unit investment trusts) in the following categories:

#### **Permitted Asset Classes**

- Cash and cash equivalents
- Fixed Income-Domestic Bonds
- Fixed Income-Non-U.S. Bonds
- Equities-U.S.
- Equities-Non-US
- Equities-Emerging Markets
- Equities-REITs
- Mortgages
- Private Capital
- Private Credit
- Precious Metals-Gold & Silver
- Crypto Currencies

#### **Permitted Security Types**

- Mutual Funds, ETF's & ETN's- Stocks, Bonds, Money Market Funds
- Individual Stocks, as long as they are traded on the New York, American or NASDAQ Stock Exchanges
- Individual Bonds traded on a major U.S exchange
- Closed-end funds
- Unit Investment Trusts
- Covered Call Options
- Deferred Annuities issued by an insurance company with a Best rating of A+ or better
- Investments in Limited Partnerships
- Bank Certificates of Deposit

## **Time Horizon**

For the purposes of planning, the time horizon for these investments is considered to be long-term in the hopes of maintaining the Endowment Fund of the Investor in perpetuity. Capital values do fluctuate over shorter periods and the Investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of at least 5 to 10 years can be minimized with the long-term investment mix employed under this IPS.

## **Risk Tolerance**

Investment theory and historical capital market return data suggest that, over a long period of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (e.g., volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Endowment Fund is the determination of an appropriate risk tolerance. There are two primary factors that affect the Investor's risk tolerance:

- Financial ability to accept risk within the investment program, and;
- Willingness to accept return volatility

Taking these two factors into account, the Investor recognizes that higher returns involve some volatility and will consider the possibility of the decline in the value of the Endowment Fund portfolio of between 5% and 10% in a given year.

## **Asset Allocation Targets & Rebalancing**

From time to time, market conditions may cause the Endowment Fund's portfolio investment in various asset classes to vary from the established allocation. To remain consistent with the asset allocation guidelines outlined in this Endowment Fund investment objectives section of IPS, the Advisor along with the Finance and Investment Committee shall review the Endowment Fund portfolio and each asset class in which the Foundation is invested in on a quarterly basis. Allowable asset allocation ranges are as follows:

|                             | <b><u>Target</u></b> | <b><u>Range</u></b> |
|-----------------------------|----------------------|---------------------|
| Domestic Equities           | 50%                  | 30% to 60%          |
| International Equities      | 12%                  | 5% to 35%           |
| Fixed Income (Bonds & Cash) | 30%                  | 30% to 50%          |
| Alternative Assets *        | 8%                   | 0% to 15%           |

\* Defined as Private Equity, Hedge Funds, Precious Metals, Crypto Currencies or other investments that don't fit traditional stocks and bonds, provided they are not prohibited investments. Crypto currency investments are confined to investments trusts or ETF's. Direct purchase of crypto currencies is strictly prohibited.

## **Rebalancing**

The Advisor shall monitor asset allocations and attempt to stay within the ranges allowed for each category. Should the Endowment Fund portfolio move outside of the ranges, the Advisor will develop a plan of action to rebalance the portfolio. Such plan will be reviewed and approved by the Finance and Investment Committee of the Board.

Two benchmarks will be referenced, both of which are simple and understandable. The first is more customized to the Endowment Fund portfolio's current target allocation.

|                                   |     |
|-----------------------------------|-----|
| Vanguard Total Stock Market Index | 55% |
|-----------------------------------|-----|

|                                          |     |
|------------------------------------------|-----|
| Vanguard Total International Stock Index | 15% |
| Vanguard Total Bond Market Index         | 30% |

The second is widely used by institutional investors. It is represented as follows:

|                                |     |
|--------------------------------|-----|
| S&P 500 Index                  | 70% |
| Barclay's Aggregate Bond Index | 30% |

In addition to returns, risk and volatility the portfolio will be analyzed using the Sharpe Ratio and Standard Deviation. The Sharpe Ratio is the most widely used method for calculating the risk-adjusted return of a portfolio. By examining the standard deviation of a portfolio's annual returns (or even monthly), one can better measure the consistency and volatility with which returns are generated.

### **Constraints**

In order to maintain diversification, no more than 20% of the portfolio should be held in any one industry and 5% in any one security with the exception of the U.S. Treasuries.

### **Prohibited Assets and/or Security Types**

- Direct Ownership of Precious Metals
- Direct Ownership of Venture Capital Investments
- Direct Ownership of Private Equity Investments
- Direct Ownership of Crypto Currencies
- Short Sales
- Purchases of Letter Stock, Private Placements, or direct payments
- Leveraged Transactions
- Commodities Transactions
- Uncovered puts, calls, straddles, or other option strategies
- Direct purchase of real estate

### **Minimum Number of Investment Categories**

The minimum number of asset classes for this Endowment Fund portfolio may not be less than four. The portfolio should have a minimum exposure to the following asset classes: growth equity, to value equity, to fixed income, and to money market/cash equivalent.

### **Investment Selection, Monitoring and Control Procedures**

The Advisor or members of the investment committee recommending managers will select Investment Managers according to the following criteria, including but not limited to:

- The investment style and discipline of the proposed Investment Manager.
- How well each proposed investment complements other assets in the Portfolio.
- The size of the organization as measured by the amount of assets under management with respect to the investment style under consideration.
- Experience of the organization as measured by the tenure of the professionals with respect to the investment style under consideration.
- Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and the magnitude and consistency of value-added performance, the amount of risk in relation to an appropriate benchmark and performance in adverse market conditions.
- Evaluation of each Investment Manager's likelihood of significantly underperforming a given market index.

## **Reporting**

Advisor shall provide Investor with a report each month that lists all assets held by Investor: values for each asset and all transactions affecting assets within the Endowment Fund and the overall Portfolio, including additions and withdrawals. Investor shall receive on a quarterly basis and within 30 days after the end of each quarter the following portfolio performance reports:

- Performance results of comparative benchmarks for the same periods
- Performance reporting on a basis that is in compliance with Association for Investment Management and Research (AIMR) standards
- End of quarter status regarding asset allocation - current versus policy
- Any recommendations for changes of the above

Results should include the last quarter, fiscal year-to-date, 1 year, 3 year, 5 year and since inception information.

## **Meetings and Communication between Investor and Advisor**

As a matter of course, Advisor shall keep Investor apprised of any material changes in the Advisors outlook, recommended investment policy and tactics. In addition, Advisor shall meet with Investor no less than annually (preferably semiannually) to review and explain the Endowment Fund and the overall Portfolio's investment results and any related issues. Advisor shall also be available on a reasonable basis for telephone communication when needed. Any material event that affects the ownership of Advisor firm or the management of the Portfolio must be reported immediately to the Investor.

## **Proxy**

The primary objective of the investment committee is to have its proxy ballots voted according to the best economic interest of the Foundation. When appropriate, the investment committee will delegate to its Advisor(s) the responsibility for voting proxy ballots.

## **SPENDING POLICY**

### **Spending Rate**

The annual spending rate will be determined by the Board on a semi-annual basis with consideration given to market conditions, the spending levels of peer institutions and the level of real return after spending over a rolling sixty-month time period. The goal for the spending rate is 3.0% - 4.5%. The spending rate will be applied to the sixty-month moving average market value. The use of a rolling sixty-month time period and the expectation of infrequent adjustments to the spending rate are intended to provide relatively stable spending allocations. The Investment Committee will determine the frequency of the distributions to better accommodate endowment awards/scholarships but avoid risk in the event of poor performance by financial markets.

Distributions will take place in the spring and/or fall of each year. The determination of the annual rate will take place in the Board of Governors meeting prior to the first distribution. If any changes are recommended to the annual rate the Board of Governors will approve or reject the change prior to the distribution.

### **Spending Reserves**

The objective of the spending reserve is to provide a source of reliable funding for distributions from the pooled endowment. Its goal is to be at least one and a quarter (1.25) year's estimated distribution, but may be between 1.0 to 2.0 years distribution, based on the prior fiscal year distribution totals, and may be comprised of income and realized and unrealized investment gains. It is to be held in both a quasi-endowment that resides in the endowment pool as well as in unrestricted net assets

invested as working capital. As an example, the reserve set for FY23-24 would be based on the prior fiscal year's total distribution: \$ 3,600,000 x 1.25 = \$4,500,000.

### **Other Factors on Spending**

In principle, the Foundation will abide by all the regulations of UPMIFA as outlined here; With the understanding that, subject to the intent of a donor expressed in the gift instrument, the Investor may appropriate for expenditure or accumulate so much of an endowment fund contribution as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Foundation. In making a determination to appropriate or accumulate, the Foundation shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, all of the following factors:

- The duration and preservation of the endowment fund.
- The purposes of the institution and the endowment fund.
- General economic conditions including the higher education price index (HEPI).
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the institution.
- The investment policy of the institution.

### **SOCIALLY RESPONSIBLE INVESTING**

The Board of Trustees of the California State University adopted a resolution which urged its recognized CSU Auxiliary organizations which make corporate investments to use statements of socially responsibility and to follow those precepts in examining past and considering future investments. In response to the Trustees' resolution, the Investor will endeavor to consider all relevant facts and circumstances in making investment decision, including the risks and opportunities of environmental, social and corporate governance features of the companies in which it invests. The Investor has a fiduciary responsibility to maximize investment returns on the Endowment Fund consistent with the level of risk allowed for under the Investment Objectives of the IPS all while ensuring good stewardship of these assets that will enable continued financial support to further the educational mission of California State University, Fullerton.

### **WORKING CAPITAL**

The Working Capital Fund pool consists of funds on deposit with the Foundation for various University related programs, scholarships and functions and is separate from endowment purposes. The Working Capital Fund is a Portfolio asset invested in a separate investment pool subject to its own strategic investment objectives set forth in this Working Capital provision of the IPS. The investment objective of the Working Capital Fund is to fully invest all Foundation approved operating, scholarship and restricted funds for the maximum period consistent with prudent investment policies that preserve capital, maintain the necessary liquidity, and maximize returns within appropriate risk constraints.

#### **Restrictions on Investments of the Portfolio's Working Capital Fund**

- All purchases of securities must be for cash and there will be no leveraged purchasing or margin transactions



- No direct investments in non-marketable securities or those for which no public market exists (except for time deposits, repurchase agreements and money market funds)
- No direct investments in unrated securities (except for money market funds, repurchase agreements, and time deposits)
- No direct investment in CMOs and other CDOs
- No direct investments in hedge funds, private equity or private credit funds
- No direct investments in futures, forwards, and options
- No direct investments in commodities
- No direct investments in foreign currency denominated securities
- No short sales

### **Working Capital Asset Allocation Targets**

|                               | <b><u>Target</u></b> | <b><u>Range*</u></b> |
|-------------------------------|----------------------|----------------------|
| Cash and Cash Equivalents     | 68%                  | 0% to 75%            |
| Investment Grade Fixed Income | 26%                  | 15% to 100%          |
| CSFPF Quasi-Endowment         | 6%                   | 0% to 20%            |

\* Allocation Range includes total Working Capital, including funds on deposit at the Foundation for various University related programs, scholarships and functions and is separate from the endowment pool.

### **MANAGEMENT FEES**

The Endowment Fund is subject to fees assessed at the annualized rate of 1.25% applied to the twenty-quarter average unit market value. The fee is assessed quarterly to the outstanding units at the end of each quarter. The management fee rate was changed from 1% to 1.25%, effective July 1, 2021.