CalPolyPomona

Philanthropic Foundation

# POLICIES AND PROCEDURES

**Subject: General Investment Policy** **Policy No. 501**

**Date: 07/2019**

## I. POLICY

This Statement of Investment Policy is intended to provide guidelines for the prudent investment of the Foundation's (see Scope, Section III) general investment portfolio and outline the policies for maximizing the effectiveness and efficiency of the Cal Poly Pomona Philanthropic Foundation, Inc. ("Foundation") investment management program. The goal of this General Investment Policy is twofold, one is to enhance the economic status of the Foundation while preserving its capital resources; the second is to establish a clear understanding between the Foundation and their Investment Manager(s) regarding investment objectives and policy guidelines. The Foundation's General Investment Policy is to be governed by Sections 5210 and 5231 of the California Corporations Code, and California Probate Code Section 18500 *et seq. (Uniform Prudent Management of Institutional Funds Act)*.

## II. OBJECTIVE

The Foundation's investment management program is designed to monitor and forecast expenditures and revenues, thus enabling the Foundation to invest its asset portfolio to the fullest extent possible. The Foundation attempts to obtain the highest yield available, while investments meet the criteria established for safety (preservation of capital), liquidity and yield.

A. SAFETY

Asset portfolio safety is the foremost objective of the Foundation. Each investment transaction shall seek to ensure portfolio losses are avoided, whether from securities default, rating downgrades, broker/dealer defaults, or erosion of market value. Cal Poly Pomona Philanthropic Foundation, Inc. shall seek the preservation of its portfolio by managing two types of risk: credit risk and market risk.

1. Credit Risk - is the risk of loss due to failure of the issuer and is managed by proper due diligence prior to investing and on an ongoing basis, and diversifying the general investment portfolio so the failure of any one issuer would not materially affect the cash flow of the Foundation.

2. Market Risk - is the risk of investment value fluctuations due to changes in the general level of interest rates or the issuer's individual or industry sector performance. This risk shall be managed by limiting the average maturity of the fixed income portion of the Foundation's general investment portfolio to five and the maximum maturity of any one security to ten years, with the exception of Mortgage-Backed Securities (MBS), the maximum maturity of which shall be limited to thirty years. Market risk shall also be managed by structuring the portfolio so fixed income securities maturing match cash outflows, eliminating the need to sell securities prior to their maturity. It is recognized that within a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall return on the investment.

B. RETURN ON INVESTMENT

The Foundation's general investment portfolio shall be designed to attain or exceed a target rate of return throughout economic cycles consistent with risk limitations and prudent investment principles. The target rate of return shall be measured in "absolute", "relative" and "comparative" terms as determined by the Finance and Investment Committee. See Return Objective Section IX of this General Investment Policy for further details.

C. LIQUIDITY

Foundation's general investment portfolio will remain satisfactorily liquid to enable the Foundation to meet anticipated operating and cash flow requirements. Historical and cash flow needs are to be analyzed continuously.

## III. SCOPE

The funds identified in this section and entrusted to the Foundation will be pooled in an actively managed portfolio. The Foundation shall oversee management of the portfolio within the content of the "Uniform Prudent Management Investment Funds Act of 2008" section 18503 (b) which states:

"…each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances."

This policy is applicable, but not limited to all funds listed below:

- General Fund
- Foundation Program Fund
- Scholarship Fund

## IV. DELEGATION AND GRANTS OF AUTHORITY

Responsibility for the investment program has been delegated by the Foundation Board of Directors to the Finance and Investment Committee, in concert with the authorized investment manager and/or advisor, to monitor and adjust from time to time, the target weighting within the asset allocation ranges allowed per the Target Asset Mix Table, (see section X – Target Asset Allocation). Any changes to the target weighting within the asset allocation ranges will be reported to the full Foundation Board at its next regularly scheduled meeting. A report on portfolio performance will be provided to the full Foundation Board on a quarterly basis at a regularly scheduled Board meeting.

The authority to execute investment transactions affecting the Foundation's portfolio shall be under the general direction of the Chief Executive Officer and the Finance and Investment Committee.

## V. ETHICS AND CONFLICT OF INTEREST

All Foundation Board members and investment personnel including family members shall refrain from personal business activity which could create a conflict in fact or in appearance with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. All such personnel shall disclose to the Chief Executive Officer any material financial interests in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Foundation's endowment investment portfolio. The Chief Executive Officer shall report in writing to the Full Board at least annually all issues, which could influence the performance of the Foundation's endowment investments.

## VI. CRITERIA FOR SELECTION OF INVESTMENT MANAGERS

In order to retain investment management organizations that have demonstrated competence in executing one or more investment strategies consistent with the established policy, the following criteria will be applied in selecting investment managers:

A. Demonstrated performance in one or more of the asset categories defined in section X.

B. A sound research program;

C. A disciplined, consistent and measurable approach to the construction and monitoring of portfolios;

D. Established investment control procedures with operating management information to assure regular review of the portfolio manager's decisions;

E. Ability to trade at the competitive rates and consistently secure best price execution;

F. Primary business purpose will be investment management and will have sufficient experience with educational investment assets;

G. Demonstrated ability to manage its affairs in a businesslike manner and with a high degree of financial stability;

H. An experienced, highly competent professional staff, recognized as such within the industry. Continuity of such personnel will be considered;

I. No conflict of interest with the policy, objectives, or organization of the investment portfolio, nor any conflict which would interfere with prudent management of the portfolio's assets;

J. Capability to report accounting and performance data in a timely manner;

K. Competitive fee structure.

## VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Foundation shall transact business only with banks, savings and loan institutions, registered investment securities dealers and the California State University local agency investment fund. 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 Finance and Investment Committee shall send a copy of the current statement of investment policy to all dealers approved to do business with the Foundation. Confirmation of the dealer's understanding of the Foundation's General Investment Policy shall be provided in writing by the dealer.

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

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

All financial institutions and broker/dealers who qualify to perform investment transactions for the Foundation must supply the Finance and Investment Committee the following:

A. Audited financial statements*

B. Proof of National Association of Security Dealers certification**

C. Proof of registration with the SEC and a copy of their ADVII***

D. Proof of state registration

E. Completed broker/dealer questionnaires

F. Certificate of reviewing and understanding the Foundation's General Investment Policy

G. Certificate of understanding the delivery versus payment instructions for custody

H. Conflict of interest certification statement

* Custodians and brokers only
** Brokers only

*** Investment advisors only

A review of the financial condition and registration of the qualified broker/dealers and other bidders will be conducted by the Finance and Investment Committee at least every three (3) years.

## VIII. PERFORMANCE EVALUATION

Performance will be reviewed for purposes of determining adherence to appropriate risk levels, and for comparison of returns to the established objectives and specific goals.

It is recognized that investment results can fluctuate through market cycles. Achievement of total rate of return within the risk levels identified will be the primary basis upon which to evaluate manager performance. Each manager's portfolio will be monitored and reported quarterly to the Finance and Investment Committee. A comprehensive quarterly report accepted by the Investment and Finance Committee will be presented to the full Board of Directors.

## IX. RETURN OBJECTIVE

The purpose of the Foundation's general investment portfolio is to support the University and its mission over the long term. Accordingly, the purpose of this statement is to establish a written procedure for the investment of the Foundation's general investment portfolio to ensure that the future growth of the portfolio is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the portfolio. This statement will establish appropriate risk and return objectives in light of the fund's risk tolerance and investment time horizon. These objectives, as well as asset allocation guidelines and suitable investments are outlined below.

The return objectives of the Foundation's general investment portfolio shall be viewed from three perspectives as follows: **Absolute** - Real (i.e., net of inflation) rate-of-return; **Relative** - Time-weighted rates of return versus capital market indices; and **Comparative** - Performance of the Investment Manager(s) as compared to a universe of similar investment funds.

1. The **Absolute Objective** of the Foundation's general investment portfolio is to seek an average total annual return of 2.0% plus the percentage change in the greater Higher Education Price Index (HEPI). This objective shall be measured over rolling one, three, five and ten year time periods. The intent of this objective is to measure, over time, the return on the portfolio as measured in inflation adjusted terms.

2. The **Relative Objective** of the Foundation's general investment portfolio is to seek competitive investment performance versus appropriate capital market benchmarks or indices. This objective shall be measured primarily by comparing investment results, over an annualized three year period, to:

   a) The Russell 3000 Index as a benchmark for the Domestic Equity component;
   b) The MSCI All Capitalization World excluding US Index (in US dollars) for the Foreign Equity component;
   c) The Barclays Intermediate Government Credit as a benchmark for the Fixed Income component;
   d) The 90-Day Treasury Bill Index as the benchmark for the Cash and Equivalent component;
   e) A comparable Index for the Real Assets component
   f) A comparable REIT Index for Real Estate component

g) Alternative Investments shall be benchmarked against an authorized investment vehicle of the Foundation.

3. The **Comparative** performance objective of the Foundation's general investment portfolio is to achieve a total rate of return that is above the median performance of universe of similar portfolios.

The Foundation's assets have a long-term, indefinite time horizon that runs concurrent with the endurance of the University. As such, these funds can assume a time horizon that extend beyond a normal market cycle, and can assume an above-average level of return volatility (as measured by the standard deviation of annual returns) in exchange for an expected higher level of returns over the longer time horizon. It is expected, however, that both professional management and sufficient portfolio diversification will smooth volatility and help to assure a reasonable consistency of return.

## X. TARGET ASSET ALLOCATION

To achieve its return objectives, the Foundation's general investment portfolio shall be allocated among a number of asset classes. These asset classes may include domestic and foreign equity, domestic and international fixed income, cash, real assets, real estate and alternative investments. The purpose of allocating among asset classes is to ensure the proper level of diversification within the Foundation's general investment portfolio. It is understood that assets may temporarily be placed in a cash equivalent account prior to investing in longer term instruments.

The following Target Asset Mix Table defines the Foundation's general investment portfolio target asset allocation.

**Target Asset Mix Table**

| Asset Class | Range | Target Wt. | Representative Index |
|---|---|---|---|
| Equities | 10-65% | 25% | |
| Domestic | | | Russell 3000 |
| Foreign (Developed and Emerging) | | | MSCI All Cap World X US Index |
| Fixed Income | 40-85% | 65% | Barclays Intermediate Gov't/Credit |
| Cash And Equivalents | 0-80% | 10% | 90-Day Treasury Rate |
| Real Assets | 0-10% | 0% | Comparable Index |
| Real Estate | 0-10% | 0% | Comparable REIT Index |
| Alternative Investments | 0-25% | 0% | Authorized Investment Vehicle |

**No more than 5 percent of the asset class may be invested in any single equity or fixed income issuer, excluding U.S. Treasury Securities, U. S. Government Agency Securities and Mortgage Back Securities, at time of purchase.**

**Exposure to any industry sector shall generally be limited to 20 percent of the asset class, excluding U.S. Treasury Securities, U.S. Government Agency Securities and Mortgage Back Securities, at time of purchase. This sector limitation is applicable to both debt and equity.**

All limitations expressed on a market value basis.

The General Investment Policy objective shall be to diversify investments among asset classes so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Investments in international issues shall be U.S. dollar denominated or appropriately hedged so as to eliminate fluctuations in value attributable to changes in currency exchange rates.

**ACCEPTABLE INSTRUMENTS**

1. Money Market Funds
2. Certificates of Deposit
3. U.S. Government or Government Agency Obligations,
4. International Bonds
5. Mortgage Backed Securities – Agency
6. Mortgage Backed Securities – Non-Agency
7. Corporate Debt
8. Repurchase Agreements
9. Mutual Funds (Debt or Equity)
10. Real Estate
11. Real Assets
12. Alternative Investments

With respect to the above listed investments, the following limitations will apply:

Money Market Funds including the Local Agency Investment Fund (LAIF). No more than 5% of the market value of the total portfolio may be invested in any fund. All funds utilized must be pre-approved by the Finance and Investment Committee.

Certificates of Deposit. Investments in certificates of deposit in any insured bank or savings institution shall be limited to the FDIC insurance maximum.

U.S. Government or U.S. Government Agency Obligations. There is no limitation within the asset class as to the percentage of the portfolio, which can be invested in U.S. Government obligations.

International Bonds. These are debt securities issued by non-U.S. governments and corporations.

Mortgage Backed Securities All investments in MBS shall be U.S. Agency guaranteed (e.g. GNMA, FNMA, FHLMAC). No more than 5% of the total market value of the asset class may be invested in any single security and no more than 20% of the total market value of the asset class may be invested in MBS issued by any U.S. Agency.

Mortgage Backed Securities – Non-Agency. These are issued by private institutions (not by government or quasi-government agencies); their underlying collateral generally consists of mortgages which do not conform to the requirements for inclusion in mortgage-backed securities issued by agencies such as Ginnie Mae, Fannie Mae or Freddie Mac. Types of non-agency MBS include: Prime, Alternative-A, Option ARMs & Subprime.

Corporate Debt, including Commercial Paper. No more than 5% of the market value of the asset class may be invested in debt issued by any domestic or international corporation. Corporate debt must carry an investment grade rating by at least two of three rating agencies (i.e. Moody, S&P and Fitch) at time of purchase. In the case of securities where the rating is split between investment grade and non-investment grade, the higher rating shall define the quality of the security. Rating downgrades subsequent to purchase shall be managed on a case-by-case basis. This policy authorizes investment of up to 10% of the market value of the asset class in non-investment grade debt provided that all such investments shall be made through mutual funds so as to diversify risk.

Repurchase Agreements. The Foundation may invest in repurchase agreements with banks and Primary Dealers in U.S. Government Securities with which the Foundation has entered into a Public Securities Association (PSA) repurchase contract, which specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 30 days. The market value of securities used as collateral for repurchase agreements shall be monitored daily by the Foundation's staff and will not be allowed to fall below 102% of the value of the repurchase agreement. Repurchase agreements cannot exceed 20 percent of the total market value of the asset class.

Mutual Funds. For purposes of this Policy, mutual funds shall be considered and treated as investments in common and preferred stocks and therefore subject to the same limitations.

Real Estate. Investments in real estate shall be limited to securities (e.g. REITs) for which there is a ready and active market.

Real Assets. Include investments in public/private real estate, natural resources, commodities, infrastructure, timber and inflation-linked securities (TIPS).

Alternative Investments that meet the “mission of the University” for the benefit of the University and are authorized by Foundation Board resolution and supported by appropriate and documented “due diligence” analysis. The value of these alternative investments shall be benchmarked against an authorized investment vehicle of the Foundation. The target value of these investments will be 10% to 15% and the total value shall not exceed 25% of the portfolio. The alternative investments will diversify and reduce volatility of the portfolio.

The Foundation will not directly invest in stocks of the top 200 fossil fuel companies, by carbon in proven oil, gas and coal reserves, although it may hold some fossil fuel stocks in commingled funds or mutual funds.

## XI. REBALANCING

The Finance and Investment Committee, and its investment advisors, on an ongoing basis and in accordance with market fluctuations, shall rebalance the investment portfolio so it remains within 5 percentage points of the ranges of targeted asset allocations, and the planned distribution among investment managers.

Formal asset allocation studies will be conducted at least every two (2) years, with evaluations of the validity of the adopted asset allocation.

## XII. SAFEKEEPING AND CUSTODY AGREEMENTS

To protect against potential losses caused by collapse of individual securities dealers, all securities

owned by the Foundation shall be kept in safekeeping by a third party brokerage firm or bank custodial department, acting as agent for the Foundation under the terms of a custody agreement.

## XIII. INTERNAL CONTROLS

The Chief Financial Officer has developed a system of internal investment and accounting controls while establishing a segregation of responsibilities of investment functions to ensure an adequate system of internal controls over the investment function.

## XIV. INVESTMENT POLICY REVIEW

This General Investment Policy shall be reviewed by the Finance and Investment Committee at least annually to ensure consistency with the overall objectives of the preservation of capital, liquidity and return of the investment portfolio. The General Investment Policy shall 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 the Foundation. Investments are reviewed monthly by the Foundation staff during the reconciliation process of investment transactions to the third party statements and the proof of cash process. The general investment portfolio is audited annually by the Foundation's independent accountants for internal controls and balances.