



## POLICIES AND PROCEDURES

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**Subject: Endowment Investment Policy**

**Policy No. 502  
Date: 02/2021**

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### I. PURPOSE AND INTENTION

The purpose of this statement is to establish a clear understanding between the Cal Poly Pomona Philanthropic Foundation (Foundation) and their Investment Managers regarding investment objectives and policy guidelines. The Foundation's Endowment 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 monitors and forecasts expenditures and revenues, thus enabling the Foundation to invest funds to the fullest extent possible. The Foundation attempts to obtain the highest return available, while investments meet the criteria established for safety (preservation of capital), return and liquidity.

#### A. SAFETY

Safety of principal within the context of positioning the portfolio to have a reasonable probability of achieving the targeted returns noted in this policy is the foremost objective of the Foundation. Management of the portfolio shall be undertaken with the objective of minimizing the opportunity for permanent loss of capital with the understanding that a degree of risk must be accepted for the portfolio to achieve the return objectives in both absolute and relative terms. The achievement of a positive risk-adjusted return is dependent upon proper design and execution of the investment strategy.

#### B. RETURN ON INVESTMENT

The Foundation's endowment 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 from time-to-time, by the Finance and Investment Committee. See Return Objective Section IX of this Endowment Investment Policy for further details.

#### C. LIQUIDITY

The Foundation's endowment 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 permanent endowment funds.

### **IV. DELEGATION & GRANTS OF AUTHORITY**

Responsibility for the investment program has been delegated by the Foundation Board of Directors to the Finance and Investment Committee. It is the responsibility of the Finance and Investment Committee, in concert with the authorized investment advisor, to monitor and adjust from time to time, the within the asset. (X – Target Asset Allocation). Any changes to allowable ranges within the asset classes 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 at each 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 Chief Financial Officer. However, the investment advisor has full investment discretion within the guidelines of this policy.

### **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 their 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. MANAGER'S INVESTMENT OBJECTIVES AND GUIDELINES**

Each Investment Manager shall have complete discretion in the management of the assets for which it has been given responsibility, subject to the guidelines set forth herein.

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

Mutual funds, pooled funds, ETFs, interval funds and limited partnerships may be used in any category. These funds must strictly follow their own stated Prospectus guidelines. When one is selected, however, it is expected that the fund prospectus will generally meet the guidelines stated for each asset category.

#### **B. Fixed Income Guidelines**

Fixed income securities may include, but are not limited to notes, mortgage related securities, debentures and debt instruments of the U.S. government, municipal bonds, non-U.S. government securities, and corporate bonds, as well as investments in TIPS, GICs, term CDs, bankers' acceptances, commercial paper, and/or cash equivalents. Bankers Acceptances must have a minimum rating of "P-1" by Moody's or "A-1" by Standard and Poor's. Investments in certificates of deposit are permitted only in those issued by

commercial banks whose debt is “A” or higher, have ready access to world capital markets, have a demonstrated record of profitability (including the avoidance of recent major loan losses), and a sizable ongoing certificate of deposit issuance or deposit collection program.

1. It is expected that the average portfolio duration for Core Fixed Income managers will be between 70% and 130% of the duration of the Bloomberg Barclays Global OR U.S. Aggregate Bond Index.
2. It is expected that the average that the average portfolio quality for Core Fixed Income managers will be BBB-/Baa3 (investment grade) or better as measured by Standard & Poor’s/Moody’s.
3. Fixed income sector specific funds and managers may be used as part of the portfolio, including but not limited to high yield, global/international, inflation protection, long duration and short duration, and flexible strategy fixed income funds.
4. Direct allocations to bond funds rated below Investment-Grade (BBB-/Baa3) will generally be limited to no more than 25% of the Fixed Income target allocation.
5. All fixed income managers are expected to outperform their respective benchmark index, over a complete market cycle.

#### C. U.S. Equity Guidelines

1. Subject to limitations noted below, investment managers will generally invest in equity securities listed on the principal U.S. exchanges or traded in the over-the-counter markets, including American Depository Receipts (“ADRs”).
2. An individual equity commitment in an investment manager’s portfolio should not exceed 10% of the market value of the total portfolio at time of purchase.
3. An individual equity commitment in an Investment Manager’s portfolio should not exceed 5% of the issuer’s outstanding equity securities (excluding passive index strategies).
4. Cash equivalents may be held in the equity portfolio at the investment manager’s discretion. Investment managers will be evaluated, however, based upon their performance relative to the appropriate benchmark as defined below.
5. All U.S. equity managers are expected to outperform their respective benchmark index, over a complete market cycle.

#### D. Non-U.S. Equity Guidelines

1. An individual equity commitment in an Investment Manager’s portfolio (excepting broad market mutual fund or ETF shares) should not exceed 10% of the market value of the portfolio at time of purchase.
2. An individual equity commitment in an Investment Manager’s portfolio should not exceed 5% of the issuer’s outstanding equity securities (excluding passive index strategies).
3. Cash equivalents may be held in the equity portfolio at the Investment Manager’s discretion. Investment Managers will be evaluated, however, based upon their performance relative to the appropriate benchmark as defined below.
4. All non-US equity managers are expected to outperform their respective benchmark index, over a complete market cycle.

#### E. Alternative Investments

Alternative investments can include but are not limited to the following asset classes: private equity, real estate, hedge funds, hedged equity, real assets, and private credit and other alternatives. Investment vehicles include but are not limited to liquid alternative funds, interval funds and limited partnerships.

### VII. AUTHORIZED CUSTODIANS, BROKER/DEALERS

All custodians/broker/dealers, who perform investment transactions for the Foundation must supply the Chief Executive Officer with 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 Endowment 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 Chief Financial Officer (CFO) at least every three (3) years. This review shall be reported to the Finance and Investment Committee as an "information item only."

### 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 Committee will be presented to the full Board of Directors.

### IX. RETURN OBJECTIVE

The purpose of the Endowment Fund 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 Endowment's assets, and to ensure that the future growth of the Endowment is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the Endowment. 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 Endowment Fund shall be viewed from three perspectives as follows: **Absolute** - Real (i.e., net of inflation) rate-of-return; and **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 Endowment Fund is to seek an average total annual return of 4.0% as inflation as measured by CPI. 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 Endowment Fund is to seek competitive investment performance versus appropriate capital market benchmarks or indices. The goal shall be to meet or exceed the Policy Benchmark net of investment fees at an overall level of risk in the portfolio commensurate with the Benchmark, over a complete market cycle. The Policy Benchmark is 70% MSCI All-Country World Index/30% Bloomberg-Barclay's Aggregate Bond Index.

3. The **Comparative** performance objective of the Endowment Fund is to achieve a total rate of return that is above the median performance of a universe of similar portfolios. The endowment assets have a long-term, indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. As such, these funds can assume a time horizon that extends well 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 Endowment Fund shall be allocated among a number of asset classes. These asset classes may include domestic equity, domestic fixed income, foreign (developed and emerging) equity, international fixed income, real estate, real assets, hedge funds, private equity, private credit and cash. These asset classes may also include global funds where the manager is allowed to choose the weighting between domestic and international securities. The purpose of allocating among asset classes is to ensure the proper level of diversification within the Endowment Fund. It is understood that endowments may temporarily be placed in a cash equivalent account prior to investing in longer term instruments.

The following Target Asset Mix Table defines the Endowment Fund's target asset allocation.

##### **TARGET ASSET MIX TABLE**

<b>Asset Class</b>	<b>Range</b>
U.S. Equity	25-60
Non-U.S. Equity	10-35
Fixed Income	15-40
Alternatives	0-30
Cash	0-10

No more than 10 percent of the investment manager's portfolio may be invested in any single equity or fixed income issuer, with the exception of U.S. Treasury, Agency and Mortgage Back securities, at the time of purchase.

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

## **ACCEPTABLE INSTRUMENTS**

1. Money Market Funds
2. Certificates of Deposit
3. Common and Preferred Stocks
4. U.S. Government or Government Agency Obligations,
5. Mortgage Backed Securities
6. Corporate Debt
7. Repurchase Agreements
8. Mutual Funds (Debt or Equity), Interval Funds, and Limited Partnerships
9. Real Estate Investment Trusts
10. Real Assets
11. Hedge Funds
12. Private Equity/Private Credit

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

- Certificates of Deposit. Investments in certificates of deposit in any insured
- Real Assets. Investments in public/private real estate
- Private Equity. Investments in private equity shall be limited to funds
- 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 coming led funds or mutual funding.

## **XI. REBALANCING**

The investment shall rebalance the investment portfolio, so it remains target allocation. Formal asset allocation studies will be conducted at least every two years, with evaluations of the validity of the adopted asset allocation.

## **XII. SAFEKEEPING AND CUSTODY AGREEMENT**

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. ENDOWMENT INVESTMENT POLICY REVIEW**

This Statement of Endowment Investment Policy shall be reviewed by the Finance and Investment Committee at least annually to ensure consistency with the overall objectives of the portfolio. The Endowment Policy shall also be reviewed annually 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 investment portfolio is audited annually by the Foundation's independent accountants for internal controls and balance.