

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.

EFFECTIVE DATE: **September 23, 2005**

HISTORICAL: March 14, 2003; 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.