

Policy 125

**University Program Endowment Fund  
Investment Policy**

Section: 100 – General Administration

Responsible Executive: Lead Financial  
Administrator

Responsible Department: Investments and Treasury  
Management

First Effective Date: March 14, 2003

Last Review: March 2018

Next Scheduled Review: September 2023

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**1.0 PURPOSE**

- 1.1. To provide investment management direction from the Board of Directors concerning the University Program Endowment Fund (“UPE Fund”) which includes financial aid and program support endowments.

**2.0 BACKGROUND**

- 2.1. This investment policy for the UPE Fund differs from some other funds managed by Cal Poly Corporation (“CPC”) for benefit of California Polytechnic State University (“University”) or CPC, due to the types of endowments in the UPE Fund. Underlying the UPE Fund’s investment goals is the need to maintain the purchasing power of endowment income and to protect the real value of endowment principal in perpetuity.

**3.0 POLICY**

- 3.1. General. CPC shall manage the UPE Fund in compliance with this policy. The general goal shall be to diversify investments among both equity and fixed-income securities in order to maintain the purchasing power of the income and to protect the endowment principal in perpetuity. This policy and any related Guidelines must complement and comply with Policy 121-General Investment Policy and its guidelines.
- 3.2. Investment Return Objectives. The UPE Fund’s Investment Return Objectives are to provide a Total Return, net fees, of 5.5% after the general inflation rate as measured by the U.S. Department of Labor Consumer Price Index – Western Region.
  - 3.2.1. The return should be reasonably stable and predictable and will be measured in rolling ten year periods.
  - 3.2.2. Total return is net of all investment fees, and can include dividends, interest and both realized and unrealized market value changes. The 5.5% Investment Return Objective is based on the sum of the current Spending Rate (4.5%) plus the estimated higher education inflation premium (1.0%) over the general inflation rate.
  - 3.2.3. The investment mix of equities and fixed income securities shall be consistent with the target Total Return and the stability objectives. It is acknowledged that these objectives will require a substantial investment in equities.
- 3.3. Allowable Investments. Allowable investments will be:
  - 3.3.1. 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 Lead Financial Administrator, or his/her designee, as advised by the

Investment Advisory Committee, will establish, document and make available for review by the Board the appropriate allocations and limits within these diversifying categories.

- 3.3.2. 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 in the UPE Fund Investment Guidelines.
- 3.3.3. Short term. 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.
- 3.3.4. 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 Lead Financial Administrator, in consultation with the Investment Advisory 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.
- 3.4. Prohibited Investments. The UPE 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 Lead Financial Administrator, in consultation with the Investment Advisory Committee. In addition, the UPE 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 Advisory Committee. Gifts of prohibited investments will be liquidated as soon as feasible.
- 3.5. 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 Board recognizes and accepts its social responsibility with respect to the investment of funds.
- 3.6. 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.
- 3.7. Spending Objectives and Payouts. The Spending Objectives for all endowments in the UPE Fund are to provide a spending rate that provides a stable, predictable level of spending, or Payout, for the endowed purposes, and for a rate of growth in the endowment that approximates the rate of inflation.
- 3.8. Spending Rate and Payout. For all endowments that meet funding threshold, the spending rate of each individual endowment in the UPE Fund will be 4.5% of the endowment's average market value on the last day of each of the twelve quarters immediately preceding the calendar year in which the Payouts are to be made; if less than twelve quarters of data is available the spending rate shall be calculated using the average market value on the last day of the available quarters.
  - 3.8.1. Spending Reserve. 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, transfer in of funds already held by the University. Payouts will be netted against spending reserve.

- 3.8.2. Exception. Any external managed investment services funds that are held in the UPE Fund may have contracted for exceptions to the spending rate, spending reserve and Payout rules herein.
- 3.9. Payout timing. 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.
- 3.10. Insufficient Return. 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.
- 3.11. Report to the Board. The Lead Financial Administrator, or his/her designee, will make the UPE Fund guidelines available to the Board and will periodically advise the Board of any change(s) to the document.

#### **4.0 DEFINITIONS**

- 4.1 Payout. Amount to be paid to endowment owner annually based on the spending rate.

#### **5.0 PROCEDURES, GUIDELINES AND FORMS**

- 5.1. Guidelines. The Lead Financial Administrator, or his/her designee, with consultation from the Investment Advisory Committee, will establish written guidelines for practical operations related to investment funds to implement this policy and other Board policies. Guidelines will include philosophy and procedures for specific investment vehicles or funds, as needed.

#### **6.0 COMPLIANCE**

- 6.1. All CPC personnel involved in trusts and investments must comply with this policy.

#### **7.0 REFERENCES AND RELATED POLICY**

- 7.1. CSU Board of Trustee Resolution RFIN 7-78-6 Social Responsibility and Investments
- 7.2. CPC Policy 121-General Investment Policy and its Guidelines

#### **Technical and administrative change updates**

*7-26-12 for title and organization structure changes.*