Policy 128

Grant and Annuity Society Investment Policy

Section: *100 – General Administration*
Responsible Executive: *Lead Financial Administrator*
Responsible Department: *Investments and Treasury Management*
First Effective Date: *February 24, 1989*
Last Reviewed: *March 2018*
Next Scheduled Review: *September 2024*

1.0 PURPOSE

1.1. To provide investment management direction of charitable gift annuity assets.

2.0 BACKGROUND

2.1. An entity must be licensed by the California Department of Insurance in order to provide grant and annuity society assets (also known as charitable gift annuities) under a planned giving program, and only entities that have been in business at least 10 years are eligible for this license. At this time, the Cal Poly Corporation is the University's designee for such gifts.

2.2. Investment of grant and annuity society assets must have specific objectives and care that maximize the portfolio's total return given the payout requirements of these long term contracts and an acceptable level of portfolio risk. CPC shall manage the grant and annuity society assets in compliance with this policy.

3.0 POLICY

3.1. General. This policy and any related guidelines must complement and comply with Policy 121-General Investment Policy and its guidelines, where applicable.

3.2. Objectives.

3.2.1. Investment Return Objectives. To earn a sufficient return to meet the required payments to the annuitants over the life of the contracts, while seeking to preserve as much as each gift's value over time as possible, and to minimize market value risk, so as not to expose CPC to liabilities from gift annuity contracts that have run out of money prior to termination.

3.2.2. Spending Objective. To maintain sufficient liquidity to meet payout requirements as stipulated in each contract.

3.3. Allowable Investments.

3.3.1. The primary investments are to be invested in a diversified mix of no-load mutual funds within the following asset classes:

3.3.1.1. Domestic large capitalization stocks
3.3.1.2. Domestic small capitalization stocks
3.3.1.3. International large capitalization stocks
3.3.1.4. International small capitalization stocks
3.3.1.5. Emerging markets stocks
3.3.1.6. Domestic and international real estate (REITs)
3.3.1.7. Treasury and government grade bonds
3.3.1.8. Investment grade bonds
3.3.1.9. High yield bonds, with limits

3.3.1.10. International bonds, with limits
3.3.1.11. Short-term investments

3.3.2. No international bond or high yield bond mutual fund will consist of more than 7% of any portfolio.

3.3.3. Other investments permitted are direct investments in common stocks, U.S. government obligations, investment grade corporate bonds, and cash equivalents.

3.4. Sale of Donated Securities. Donated securities will be sold in their entirety as soon as possible, barring any market trading limitations, typically on receipt of the gift by CPC's Investment Manager, unless specifically directed otherwise by CPC. The Investment Manager does not guarantee that the donor's gift value will be captured in the sales. Due to high transaction costs, donated fixed income securities may be held as substitutes for mutual funds in the bond categories if they approximate the desired maturity and risk criteria. Illiquid securities may take longer to sell; the Investment Manager makes every effort not to represent more than 20% of the day's trading volume in any stock.

3.5. Investment of Donated Assets. New contributions to the grant and annuity portfolio will typically be invested immediately if they represent less than 30% of the portfolio's market value, otherwise, they will be averaged-in. When the Investment Manager averages a new gift into the target portfolio allocation, it will be over a six-month period, generally in three pieces (four, if the gift is greater than $1 million). This is to prevent the account from being exposed to a major market correction immediately after its funding. The Investment Manager may vary this strategy due to account size, market conditions, or other special circumstances. Upon termination of an annuity contract, assets will be sold as soon as practicable and transferred upon CPC's instructions.

3.6. Socially Responsible Investing. The Board of Trustees of California State University adopted a resolution urging auxiliary boards that make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The CPC Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.

3.7. Custodial Arrangements.

3.7.1. All marketable securities will be held by a bonded or insured, notable and nationally known operating custodian. The terms and conditions of this custodial relationship shall be detailed in a written agreement.

3.7.2. The gift annuity assets will be maintained in at least two separate custody accounts: a reserve account to meet the requirements of the California Department of Insurance and a surplus account, which holds the assets not required in the reserve account. The two accounts will be combined for purposes of calculating performance and allocating results across contracts.

3.8. Investment Discretion.

3.8.1. The annuity assets will be pooled and invested separately and shall not be commingled with CPC general funds or endowment funds.

3.8.2. The reserve account assets will be invested to meet the requirements of the California Department of Insurance.

3.8.3. All assets shall be fully invested in instruments and accounts that provide adequate liquidity to meet the payout requirements of the contracts.

3.9. Spending Rules.

3.9.1. Payments will be made to the annuitants based on the contractual obligations.

3.9.2. Pooled investment records will be maintained for the contracts in the pool (including both current and deferred payment annuities), documenting each contract's proportionate share of the pool. Each contract's payments shall be applied against its own proportionate share of the pool.

3.9.3. Other than for contractual payments, fees and expenses, and withdrawals to fund a payment reserve, the funds in the gift annuity accounts will not be spent prior to the termination of the contracts.

3.10. Reporting. After the end of each calendar quarter, all investment actions taken by the Investment Managers on behalf of the fund will be reviewed. Within 30 days of fiscal year-end, the Investment Managers will advise the Lead Financial Administrator and the Investment Advisory Committee that such actions were consistent with the guidelines of the fund, as well as the extent of any inconsistency.

4.0 DEFINITIONS

4.1. Investment Manager(s). A person or firm who provides professional management of securities, mutual funds, exchange-traded funds, fund of funds or various other assets in such manner as to meet goals set by the CPC Board of Directors within parameters defined by the Lead Financial Administrator and the Board of Directors.

5.0 PROCEDURES, GUIDELINES AND FORMS

5.1. The Lead Financial Administrator, or his/her designee, with consultation from the Investment Advisory Committee, may establish written guidelines and forms for practical operations to implement this policy. Guidelines may include philosophy and procedures, 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. CPC Policy 121-General Investment Policy and its guidelines

Technical and administrative change updates

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