

Investment Policy Statement

For

California State University, Los Angeles (Cal State LA) Foundation Non-Endowment Fund

*Amended and Restated
January 27, 2022*

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EXECUTIVE SUMMARY

Type of Plan: Non-Endowment Fund

Current Assets: \$8,060,796
As of January 20, 2022

Time Horizon: Into perpetuity
Evaluation – 3 Years

Expected Return: A return in excess of 75% Barclays Aggregate Bond Index + 25% 90-Day T-Bills

Risk Tolerance: Conservative

Asset Allocation:

	Lower <u>Limit</u>	Preferred <u>Allocation</u>	Upper <u>Limit</u>
Fixed Income	0.0%	75.0%	95%
Cash & Equivalents	5.0%	25.0%	100.0%

Evaluation Benchmark: Total return to meet or exceed the performance of a policy index based upon the strategic asset allocation of the Fund to various broad asset classes. Specifically, the policy index will be a weighted index comprised of:

- 75% Barclays Aggregate Bond Index
- 25% 90-Day T-Bills

Statement of Investment Policy, Objectives, and Guidelines Cal State LA Foundation Non-Endowment Fund

MISSION OF THE CALIFORNIA STATE UNIVERSITY, LOS ANGELES (CAL STATE LA) FOUNDATION NON-ENDOWMENT FUND

The mission of the Cal State LA Foundation Non-Endowment Fund is to:

- Provide short-term support for the mission of Cal State LA.
- Provide an administrative structure for the receipt and distribution of funds for the short-term needs of Cal State LA.
- Provide support to the operating needs set forth by the Cal State LA Foundation (Foundation).

SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the Foundation Non-Endowment Fund separate from the Foundation Endowment.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Investment and Finance Committee (Investment Committee) of the Foundation in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude, which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DELEGATION OF AUTHORITY

The Investment and Finance Committee (Investment Committee) and the Board of Trustees of the Foundation are fiduciaries and are responsible for directing and monitoring the investment management of Fund assets. As such, the Investment Committee is authorized (with Board approval) to delegate certain responsibilities to professional experts in various fields. These could include, but are not limited to:

1. Investment Management Consultant. The consultant may assist the Investment Committee in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; selecting and monitoring individual fixed income securities and/or fixed income mutual funds; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.
3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.
4. Additional specialists such as attorneys, auditors, actuaries, CPA's, and others may be employed by the Investment Committee to assist in meeting its responsibilities and obligations to administer Fund assets prudently.
5. Co-Trustee. The Investment Committee may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-trustee will assume fiduciary responsibility for the administration of Fund assets.

All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

DEFINITIONS

1. "Fund" shall mean the Foundation Non-Endowment Fund.
2. "Investment and Finance Committee" shall refer to the governing body established by the Cal State LA Foundation Board of Trustees to administer the Fund as specified by applicable by-laws.

3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets. This may include a manager of a mutual fund or of a separate account.
5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
6. "Securities" shall refer to the marketable investment securities, which are defined as acceptable in this statement.
7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is three years.
8. "Total Return" shall refer to the aggregate return from capital appreciation and dividend and interest income.

ASSIGNMENT OF RESPONSIBILITY

RESPONSIBILITY OF THE INVESTMENT MANAGER(S)

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Informing the Investment Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
6. Voting proxies, if requested by the Investment Committee, on behalf of the Fund, and communicating such voting records to the Investment Committee on a timely basis.

RESPONSIBILITY OF THE INVESTMENT CONSULTANT(S)

The Investment Consultant's role is that of a non-discretionary advisor to the Investment Committee of the Foundation. Investment advice concerning the investment management of Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the periodic review of investment policy, including asset allocation, rebalancing and benchmark analysis.
2. Conducting investment manager searches when requested by the Investment Committee.
3. Providing "due diligence", or research, on the Investment Manager(s).
4. Monitoring the performance of the Investment Manager(s) to provide the Investment Committee with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Investment Committee.
7. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Investment Committee.
8. Selecting and monitoring individual fixed income investments and/or fixed income mutual funds as allowed in this investment policy statement.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the beneficiaries of the Fund.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses.
4. The Investment Committee may employ one or more fixed income investment managers of varying styles and philosophies to attain the Fund's objectives.
5. The Investment Committee may choose to utilize the Investment Consultant to make direct purchases of fixed income investment as outlined in this policy statement.

6. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.
7. The Investment Committee recognizes the Uniform Management of Institutional Funds Act (UMIFA) of 1972 and will adhere to the guidelines of said Act.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Investment Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

GOAL OF THE FOUNDATION NON-ENDOWMENT FUND

The Investment Committee feels that grants to be made in the future are as important as grants made today. This is consistent with the philosophy that this Fund is to exist in perpetuity, and therefore, should provide for grant making in perpetuity. The Fund's specific investment objectives will be established later in this document.

CASH FLOW OBJECTIVES

The following guidelines are set forth to facilitate the management of both contributions to and distributions from the Non-Endowment Fund.

CONTRIBUTIONS

Contributions to the Non-Endowment Fund are expected from the following sources:

1. Five percent (5%) of unrestricted or temporarily restricted gifts of more than \$25,000.
2. Five percent (5%) of permanently restricted (endowment) gifts.
3. Up to one and one-half percent (1.5%) of earnings (also known as Administrative Assessment) on the Endowment Fund annually at the discretion of the Investment Committee.
4. Interest and dividends earned on the Non-Endowment Fund at the discretion of the Investment Committee.

DISTRIBUTIONS

Distributions from the Non-Endowment Fund are expected as follows:

1. Scholarship Distributions made year round.
2. Capital Expenditures – special distributions will be made from the Non-Endowment Fund to support specific capital projects as needed.
3. In the event that market losses decrease the market value of the fund below the cost basis, no distribution will be made to the operating budget for that year except at the discretion of the Board.
4. Other distributions as restricted and directed by the donor.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Foundation Non-Endowment Fund is to emphasize the generation of current investment income; that is, the aggregate return from dividend and interest income only.

Specifically, the primary objective in the investment management of Fund assets shall be:

Preservation of Capital – To minimize the probability of loss of principal over the investment horizon. Emphasis is placed on minimizing return volatility rather than maximizing return.

The secondary objectives in the investment management of Fund assets shall be:

Liquidity – To ensure the ability to meet all expected or unexpected cash flow needs by investing in securities which can be sold readily and efficiently.

SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal of the aggregate Fund assets to exceed:

**The blended rate of return of 75% Barclays Aggregate Bond Index
plus 25% of the 90-Day T-Bills**

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment.

INVESTMENT MANAGER GOALS

The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Investment Committee that most closely corresponds to the style of investment management.

2. Display an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

DEFINITION OF RISK

The Investment Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Foundation Non-Endowment Fund assets understand how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and investment strategy as designed in this statement of investment policy. The Investment Committee defines risk as (in prioritized order):

- 1) Probability of not meeting the Fund's liabilities or cash flow requirements.
- 2) Probability of losing money over the investment time horizon of three years.

RISK TOLERANCE

The worst aggregate return that the Investment Committee is willing to accept on the fixed income investments over any single twelve-month period is 0% to –3%. The Investment Committee is unwilling to tolerate any loss on the cash equivalent investments over any single twelve-month period. The Investment Committee has also agreed that they could not tolerate any loss to the entire investment portfolio over the investment time horizon of three years.

The Investment Committee has determined the risk profile of the Non-Endowment Assets to be conservative. They are unwilling to accept short-term fluctuations in their portfolio in order to achieve higher returns over a longer-term time horizon.

LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Investment Committee will periodically provide investment consultants with an estimate of expected net cash flow.

To maintain the ability to deal with unplanned cash requirements that might arise, the Investment Committee requires that a minimum of \$400,000 of Fund assets shall be maintained in cash or cash equivalents.

MARKETABILITY OF ASSETS

The Investment Committee requires that all of Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

INVESTMENT GUIDELINES

ALLOWABLE ASSETS

1. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - Commercial Paper
 - Banker's Acceptances
 - Repurchase Agreements
 - FDIC Insured Certificates of Deposit (term of less than 18 months)
 - Local Agency Investment Fund (LAIF)
2. Fixed Income Securities
 - U.S. Government and Agency Securities
 - Corporate Notes and Bonds
 - Mortgage Backed Bonds
 - FDIC Insured Certificates of Deposit (term of 18 months or more)
3. Fixed Income Mutual Funds – fixed income mutual funds that invest in the securities specified above or the following securities:
 - Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs
 - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other “early tranche” CMOs
 - Fixed Income Securities of Foreign Governments and Corporations
 - Fixed Income Securities used for hedging strategies
4. Loans as authorized by the Board of Directors.

DERIVATIVE INVESTMENTS

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Investment Committee feels that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the Investment Committee will take a conservative posture on derivative securities in order to maintain its risk adverse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. **Unless a specific type of derivative security is allowed in this document, the Investment Manager(s) and/or Investment Consultant must seek permission from the Investment Committee to include derivative investments in the Fund's portfolio. The Investment Manager(s) and/or Investment Consultant must present detailed information as to the expected return and risk characteristics of such investment vehicles.**

PROHIBITED ASSETS AND TRANSACTIONS

Prohibited investments include, but are not limited to the following:

1. Common Stocks
2. American Depository Receipts (ADRs) of non-US companies
- 3.. Stocks of Non-U.S. companies (Ordinary Shares)
- 4.. Commodities and Futures Contracts
5. Private Placements
6. Options
8. Limited Partnerships
9. Venture-Capital Investments
10. Real Estate Properties
11. Short Selling
12. Margin Transactions
13. Industry or Sector Specific Mutual Funds
14. Hedge Funds
15. Hedge Fund-of-Funds
16. Preferred Stock
17. Convertible Preferred Stock

SOCIALLY RESPONSIBLE INVESTING

The Investment and Finance Committee may consider investment managers who focus on ESG (Environmental, Social and Corporate Governance) during the investment process.

ASSET ALLOCATION GUIDELINES

Investment management of the assets of the Cal State LA Foundation Non-Endowment Assets shall be in accordance with the following asset allocation guidelines:

1. Aggregate Fund Asset Allocation Guidelines (at market value)

	<u>Lower Limit</u>	<u>Preferred Allocation</u>	<u>Upper Limit</u>
Fixed Income	0.0%	75.0%	95.0%
Cash & Equivalents	5.0%	25.0%	100.0%

Evaluation Benchmark: Total return to meet or exceed the performance of a policy index based upon the strategic asset allocation of the Fund to various broad asset classes. Specifically, the policy index will be a weighted index comprised of:

- 75% Barclays Aggregate Bond Index
 - 25% 90-Day T-Bills
2. The Investment Committee may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement.
 3. Rebalancing Strategy – The Investment Committee will employ the “Threshold Rebalancing Strategy”. In the event that the Fund assets move outside the above aggregate asset allocation guidelines, the Investment Committee will take the appropriate steps to bring the portfolio into balance, i.e. back into alignment with the preferred allocation. Rebalancing will be addressed by the Investment Committee on a quarterly basis as needed, and the overall asset allocation guidelines will be reviewed on an annual basis.

GUIDELINES FOR FIXED INCOME INVESTMENTS AND CASH EQUIVALENTS

1. Maximum Maturity/Duration – Investments may have maturities of up to thirty (30) years. The weighted average portfolio maturity may not exceed 3.5 years.
2. Diversification/Concentration:

Fixed Income Mutual Funds (not to exceed 95% of the total portfolio):

- Obligations of the U.S. government and Federal Agencies – no limit.
- Mortgage-backed and Asset-backed securities not to exceed 50% of the portfolio.
- Collateralized Mortgage Obligations (CMO’s) not to exceed 10% of the portfolio.
- Obligations of US Corporations not to exceed 50% of the portfolio: and not to exceed 5% of the portfolio with any one issuer.
- Money market funds – no limit.

Individual Fixed Income Securities:

- Obligations of the U.S. government and Federal Agencies – no limit.
- FDIC Insured Certificates of Deposit – no limit
- Money market funds – no limit.

Separate Accounts:

- Sector allocation to U.S. Government, Federal Agencies, Mortgage-Backed and Asset-backed securities to be determined by investment manager.
- Money market funds – no limit.

3. Credit Quality:

Fixed Income Mutual Funds:

- Investment Grade – no limit.
- BB rated or below – 10% maximum.

Individual Fixed Income Securities:

- Investment Grade – no limit.

Separate Accounts:

- Investment Grade – no limit.
- BB rated or below – 10% maximum.

4. Money Market Funds - shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

SELECTION OF INVESTMENT MANAGERS

The Investment Committee's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company.

PERFORMANCE REVIEW AND EVALUATION

Performance reports shall be compiled at least quarterly and communicated to the Investment Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Investment Committee intends to evaluate the portfolio(s) over a three year period, but reserves the right to terminate an investment manager for any reason including the following:

1. Investment performance, which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objective, financial status and capital markets expectations as established in this statement of investment policy, the Investment Committee plans to review investment policy at least annually.

This statement of investment policy is adopted by the Board of Trustees of the California State University Los Angeles Foundation on January 27, 2022.