

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION, Inc.

Policy: SSUAF Policy 06-01
Title: INVESTMENT POLICY

SECTION I – General Guidelines

The purpose of acquiring charitable funds is to support the University and its mission over the long term. Accordingly, the purpose of this policy is to establish a strategic framework for the investment of SSUAF assets. This policy will establish appropriate risk and return objectives in light of the fund's risk tolerance and long-term investment time horizon. Asset allocation guidelines and suitable investments shall be established by the Foundation consistent with this policy.

The Finance Committee is responsible for developing the Investment Policy of the Foundation, recommending investment manager(s) to manage the investments of the Foundation and for monitoring investment performance. The SSUAF Board of Directors is responsible for review, approval, and implementation of Finance Committee action and policy recommendations. As fiduciaries of the Foundation, the Board is ultimately responsible for the investments of the Foundation.

It is the policy of the Foundation to give the investment manager discretion in all investment decisions subject to the restrictions stated in this policy. SSUAF expects the assets to be invested with care, skill, prudence and diligence under the circumstances prevailing from time to time that a prudent expert acting in a like capacity and familiar with such matters would use in the investment of funds of like character with similar aims. The investment manager is given the authority to direct the purchase, sale, exchange, or conversion of any and all qualifying investment assets not prohibited in this policy.

The investment manager must submit a quarterly report to the University Treasurer to be distributed to the Foundation Chief Operating Officer, Chief Financial Officer, and Finance Committee, detailing investment data such as current portfolio holdings, market value, annualized yield, net total return, performance compared to benchmarks, quarterly realized gains and income from all invested assets, and other information that is customary on the investment manager's reporting system.

Four investment pools exist within the Foundation. Performance objectives and guidelines for each pool are specified in subsequent sections of this policy. These pools are:

- Current Funds Pool
- Endowment Pool
- Special Investment Pool
- Charitable Remainder Trust Pool

- A. Relevant Risks. Many types of risk exist which may impact the Foundation's investments, including but not limited to: volatility, inflation, liquidity, and underperforming benchmarks.

The most relevant and comprehensive definition of risk is failing to achieve the Foundation's policy objectives. Anything that increases the likelihood of failing to achieve these objectives can be accurately defined as risky. Therefore, all actions, strategies, and asset classes should be considered or reviewed in the context of whether they will likely enhance or erode the chances of achieving policy objectives, which may vary by pool. Those that increase the probability of attaining goals should not be considered risky.

- B. Restrictions. It is recognized that it may be beneficial for the investment manager to consider alternative or non-traditional investments as a risk-adverse strategy in combination with other, more traditional strategies. Alternative investments as defined by the American Institute of Certified Public Accountants (AICPA) are investments in financial instruments without a readily determinable market value. The Finance Committee, on an individual investment manager basis, may specifically authorize such investments. However, unless special circumstances dictate, none of the four pool's assets are to be invested exclusively in investment vehicles such as:

- Trading in securities on margin.
- Selling short.
- Derivative investments.
- Selling and purchasing warrants and options.

- C. Valuation of Investments. The Foundation seeks to maintain best practices with regard to the valuation of assets held in each pool. To that end, the Foundation maintains quarterly and annual procedures to insure that all investments are appropriately valued.

Particularly, for alternative investments without readily determinable market values, the Foundation has adopted the following procedures to insure the values reported by the investment manager are reliable:

- Reviewing monthly and quarterly reports provided by the investment manager;
- Gaining an understanding of the investment manager's procedures and processes to insure accurate and reliable financial reporting;
- Participating in direct communication with the investment manager to understand investment strategies, internal controls, valuation policies, and performance results;
- Verifying pricing values reported by the investment manager for marketable securities held within the investment manager's portfolios (i.e. funds of funds).

SECTION II – Current Funds Pool

- A. General. The Current Funds Pool is designed to serve as a depository of cash used to support expenditures from Campus Program accounts, Scholarship accounts and the SSUAF General Fund operating budget._____
- B. Investment Objectives.
- To maintain safety of principal,
 - To maintain funds adequate to meet the working capital needs of the Foundation,
 - To maintain a liquid position,
 - To provide for immediate transfer of cash to meet operating needs of the Foundation, either by wire or by check, and
 - To target rates of return equal to or better than the average 90-day Treasury Bill rates.
- C. Policy Statement. The University Treasurer, on behalf of the Foundation Chief Operating Officer, is responsible for maintaining asset allocations in accordance with this policy.
- D. Approved or Accepted Instruments.
- Certificates of Deposit – FDIC insured only (maximum balance per financial institution to be equal to FDIC insurance limits).
 - Commercial Paper – Limited to ratings A-1 by Standard and Poor's and P-1 by Moody's.
 - U.S. Government and government guaranteed securities.
 - Investment grade money market funds.
 - Other short term investments may be used if approved by the Finance Committee to be acceptable and in the best interests of the Foundation.

SECTION III – Endowment Pool

- A. General. The Endowment Pool shall consist of two broad categories of endowment funds: (1) Pooled Endowment Funds and (2) Non-Pooled Endowment Funds.
- 1) The investment goal of the Pooled Endowment Funds is to achieve a “real” (actual value minus inflation) total return that preserves or increases the purchasing power of the Pooled Endowment assets. The Pooled Endowment shall be invested in such a way that it generates sufficient earnings to support current operations in the Foundation’s General Fund, Endowment, Campus Program and Scholarship accounts. The long run total-return objective for the portfolio shall be inflation, as determined by the U.S. Higher Education Price Index (HEPI), plus 5 percent. The Pooled Endowment shall be unitized and earnings will be distributed based on the individual fund’s percentage share of total units. Additions to the pool during a month will be assigned units based upon the unit value of the pool at the end of the month.
- 2) Non-Pooled Endowment Funds are not pooled or unitized due to specific donor requirements or unique circumstances. The investment vehicles and goals of each of these funds may vary and will be analyzed and managed on an individual fund basis.
- B. Uniform Prudent Management of Institutional Funds Act (UPMIFA). Following the passage of California Senate Bill No. 1329, the State of California has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA guides the management, investment, and expenditure of endowment funds held by charitable institutions, including SSUAF. UPMIFA’s guidelines apply in the absence of explicit donor restrictions about those activities.
- C. Considerations of Prudent Investing. Consistent with UPMIFA, in the absence of a clear donor restriction in the gift instrument, the following factors or actions are to be considered (if relevant) when investing endowment funds:
- Effects of inflation.
 - Investment decisions must be made in relation to overall resources of the institution and its charitable purposes.
 - No investment decision may be made in isolation, but in light of the fund’s entire portfolio.
 - Investment should be part of a strategy having risk and return objectives reasonably suited to the fund and the institution.

- Diversify assets as an affirmative obligation unless special circumstances dictate otherwise.

D. Performance Measurement, Monitoring, and Evaluation. Performance (net of fees) for the Pooled Endowment will be calculated on a quarterly basis by the investment manager. In addition to reporting time-weighted total returns for each investment, a comparison will be made with relevant market benchmarks.

Peer benchmarking will also be conducted through comparison of investment performance and practices with other higher education institutions. This will be conducted primarily through annual participation in the NACUBO-Commonfund Study of Endowments (NCSE). Every California State University institution is encouraged to participate in this annual survey.

E. Investment Costs/Fees. Prudence is to be conducted in incurring investment costs or fees, authorizing only costs that are appropriate and reasonable in relationship to the assets, the purposes of the funds, and the skills available to the Foundation.

F. Asset Allocation Targets and Ranges. Asset Allocation targets, ranges, and representative benchmarks are to be recommended by the Finance Committee and approved by the Board of Directors 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. Diversification is to be used as a means to dampen performance return volatility. The Foundation takes the view that it will be compensated over time by investing in diversified asset classes that would provide for a higher rate of return and lower volatility in the long run. The approved asset allocation targets and ranges for the Foundation’s Pooled Endowment Funds are as follows:

<u>Asset Class</u>	<u>Min</u> <u>Wt.</u>	<u>Target</u> <u>Wt.</u>	<u>Max</u> <u>Wt.</u>	<u>Representative Index</u>
Equities	62%	72%	82%	
Large Cap Equities	10%	21%	30%	S&P 500
All Cap Equities	5%	12%	20%	Russell 3000
Small Cap Equities	0%	0.5%	8%	Russell 2000
International Equities	5%	16.5%	20%	MSCI World ex US
Emerging Markets	0%	5%	8%	MSCI EMF
*Hedged Equity	0%	9%	15%	S&P 500
*Commodities	0%	3%	6%	DJ AIG Commodities Index
*Private Capital	0%	5%	10%	S&P 500 + 4%

Fixed Income	20%	28%	35%	
Cash & Equivalents	0%	0%	2%	90 Day T-bills
Core Bonds	5%	7.5%	25%	Barclays Aggregate Bond
Global Bonds	0%	1.5%	5%	Citigroup World Govt Bond
High Yield Bonds	0%	2%	5%	Merrill Lynch High Yield
*Low Volatility Hedge	0%	4%	8%	90 Day T-Bills + 3%
*Distressed Debt	0%	3%	5%	Absolute Net Return 11%
*Real Estate	0%	10%	15%	Absolute Net Return 11 %

* *Considered Alternative Investments*

- G. Liquidity Guidelines. In order to meet the overall liquidity needs of the Foundation, it will be the objective to allocate approximately 10% of all Pooled Endowment Funds to daily or weekly liquid accounts.
- H. Rebalancing Policy. The purpose of rebalancing is to control portfolio risk and maintain the policy asset allocations within the targeted ranges. The portfolio will be reviewed monthly and rebalanced as necessary.

The Finance Committee may delegate to the investment manager the execution of rebalancing transactions. These rebalancing shifts may be tactical in nature and must fall within the specified asset allocation ranges. The investment manager may not execute rebalancing that would result in a new investment program or an allocation outside of the guidelines in this policy statement without the prior approval of the Finance Committee.

- I. Spending Policy. The long-term objective of the spending guidelines is to maintain the purchasing power of each endowment (intergenerational equity) with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current operations. The objective is to distribute an amount equal to or greater than the prior year's distribution. This figure shall be adjusted for new contributions received or postmarked on or before December 31st.
- J. Other Factors on Spending. The spending policy guidelines have been established in accordance with principles of spending outlined in UPMIFA. Spending is governed by a comprehensive prudence standard that permits the Foundation to accumulate or spend so much of the Pooled Endowment – including principal or income, realized or unrealized appreciation – as the institution deems prudent after considering a number of factors. A significant provision in UPMIFA includes the elimination of historic dollar value as a spending restriction. Thus, SSUAF may spend the amount it deems prudent after considering the donor's intent and the following economic factors:

- The duration and preservation* of the endowment fund.
- The purposes of the institution and the endowment fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the institution.
- The investment policy of the institution.

*SSUAF has interpreted the preservation of endowment funds as requiring the preservation of the fair value of the original gift as of gift date of the donor restricted endowment funds absent explicit donor restrictions to the contrary.

- K. Spending Reserve Policy. The objective of the spending reserve is to provide a source of reliable funding for distributions from the Pooled Endowment. Its goal is to be equal to two year's estimated distributions and may be composed of ordinary income and realized capital gains. It is to be held separately from the Pooled Endowment assets and is to be invested under the same investment objectives and guidelines as outlined in the Current Funds Pool section (section II) of this policy.

SECTION IV – Special Investment Pool

- A. General. These accounts accommodate all assets which, either by constraint or by type of investment cannot be included in the other investment pools. These investments facilitate special requirements. The types of investments may vary depending on fund type and donor or other restrictions.
- B. Investment Management and Reporting. The Finance Committee shall oversee the management of these investments and their performance.

SECTION V – Charitable Remainder Trust Pool

- A. General. In general, the Foundation, as trustee, is charged with the responsibility of managing the trust assets. The Finance Committee is charged with investment management of these funds. All management decisions are guided by the provisions of the trust document and by applicable laws.
- B. Guidelines. Charitable Remainder Trust assets may not be pooled or unitized, but may be co-mingled with other assets as long as each trust's assets are clearly identifiable and able to be valued independently. The primary financial objective for the investment management of Trust assets is to maximize cash flow to

enable beneficiary payouts while maintaining or increasing the nominal value of the Trust. Only quality investments, including notes receivables or other appropriate investments as recommended by the Finance Committee are permitted.

SECTION VI – Policy Intent and Review

This statement of investment objectives and policy is intended for use as a guide to assist the Board of Directors, the Finance Committee, and the investment manager. It should not be considered as a legal document or contractual obligation. It is intended to be a flexible document whose purpose is to assist all parties in the management of the Foundation's investments.

Approved by SSUAF Board of Directors on 6/19/09