UNIVERSITY OF SAN DIEGO

INVESTMENT POLICY STATEMENT

Adopted October 2, 1996

Amended [1] — February 20, 1998
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Amended [5] — April 30, 2009
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University of San Diego

Investment Policy Statement

General Information

The University of San Diego is a Roman Catholic institution committed to advancing academic excellence, expanding liberal and professional knowledge, creating a diverse and inclusive community, and preparing leaders dedicated to ethical conduct and compassionate service. Chartered in 1949, the University of San Diego offers bachelor's, master's, and doctoral degrees, as well as continuing education programs.

The purpose of the University of San Diego Pooled Investment Fund is to provide financial stability through permanent funding of University needs. All investments should be consistent with the University's mission, its Catholic character, and the purpose of the Pooled Investment Fund.

Introduction

This document establishes the investment policies, guidelines and objectives for the Pooled Investment Fund (the "Fund") of the University of San Diego (the "University").

The purpose of the Investment Policy Statement is to:

- State the Fund's investment objectives and policy guidelines
- Outline the asset allocation targets the Fund will use to achieve its investment objectives
- Establish criteria for the engagement, review and retention of external investment managers
- Provide a review document to guide the Investment Committee ("the Committee") and its ongoing supervision of the Fund

Investment Objectives

The overall investment goal for the Fund is three-fold: (1) to provide a relatively predictable, stable and constant spending stream to meet the needs of the University; (2) to preserve and enhance the real (inflation adjusted) purchasing power of the Fund; and (3) to increase the Fund through unspent income and gains, appreciated value, gifts and other appropriate funds.

Asset Allocation

It is recognized that the achievement of a long-term, real return generally requires a significant allocation to higher returning asset classes. To help moderate the volatility of the portfolio, the Fund will seek to achieve meaningful diversification across asset classes and investment managers. In addition, the Fund will include allocations to asset classes that provide a meaningful hedge against deflation and inflation.

As part of its delegated responsibility to establish investment policies and oversight for the Fund, the Committee will review the asset allocation policy targets on a regular basis. The Fund's target allocation is outlined in Appendix I, along with the role of each asset class in the total portfolio. The Committee has the discretion to revise the asset allocation targets.

Spending Policy

Spending is based on a total return strategy which includes both appreciation (realized and unrealized gains) and income.

- The maximum rate of spending shall be the lesser of 4.0% of the Fund's trailing three year average market value or the accumulated available earnings. Notwithstanding the above, the spending level generally shall be no less than the previous year's allowable spending level. Earnings may be accumulated where the investment return exceeds the rate of inflation and the spending rate. Any request for a spending rate allowance that is greater than 4.0% of the Fund's trailing three year average market value will be approved by the President or Vice President for Finance, and the Committee.

- When deemed prudent, the principal of a true endowment can be spent in order to generate up to a 4% spending rate upon the President's or Vice President for Finance's approval, and will be reported to the Committee.

- In exceptional circumstances, expenditures from the principal of the quasi endowment funds may be permitted with approval from the President and the Board of Trustees.

- The plant fund and cash reserves will not be subject to the same spending constraints as the Endowment Fund. Instead, they will be spent as budgeted.

- Any remaining (or unspent) spending allowance at the end of each fiscal year will be returned to the accumulated earnings of that endowment for continued investment earnings allocation. Beginning July 1, 2017, a formal request to carry forward prior years' remaining (or unspent) allowance, up to a specified maximum, will be approved by the President or Vice President for Finance and reported to the Committee. The maximum amount to be carried forward under the petition process will generally be limited to the amount of unspent allowance for the preceding two years.

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Cash Flows and Portfolio Rebalancing

New cash flows shall be allocated to investment managers by the Vice President for Finance, unless otherwise specified by the donor. In the event the Fund receives contributions of assets which are not readily marketable, such assets will be excluded from the investment managers' performance (e.g., real estate).

As a general rule, new cash should first be used to rebalance the total fund in accordance with the target asset allocation policy. Additional rebalancing can also be implemented through withdrawals for spending purposes and transfers among investment managers. The primary purpose of rebalancing is to maintain the risk/reward relationship implied by the stated asset allocation targets.

The Fund's actual asset allocation will fluctuate with market conditions. Rebalancing the asset allocation is important to maintaining the risk profile of the Fund. In addition, disciplined rebalancing decisions have proven to help increase returns over time. The Committee will make efforts to rebalance as it deems appropriate and it has the discretion to rebalance the portfolio's underlying funds at or between meetings as long as a quorum approves the change. The Vice President for Finance, after consulting with the Committee's Chair, is authorized to raise cash to fund capital calls between meetings, should the portfolio's liquidity account be insufficient. The Vice President for Finance will report any raising of cash between meetings to the Committee at their next scheduled meeting.

Transaction Guidelines and Fees

All transactions should be entered into on the basis of best execution (best realized net price). The Committee shall review the overall fees of the portfolio on a regular basis.

Investment Manager Structure

Specific investment decisions will primarily be developed and implemented by external investment managers. To provide diversified exposure, a multiple manager structure will be employed. The purpose of diversification across managers is to provide reasonable assurance that no single security or class of securities is likely have a disproportionate impact on the Fund's aggregate results. In addition, the expectation is that exposure to multiple investment philosophies will smooth the path of returns through different market cycles.

Investment managers are selected within each asset class primarily based upon the stability of their organization, the experience of their professional staff, the credibility of their management process, the adherence to their investment discipline and the strength of their results relative to the market and their peers. No more than 20% of the Fund will be invested with any single marketable manager, or 10% with any non-marketable manager.

The selection or termination of an investment manager shall be authorized by the Committee and may be done at or between meetings as long as a quorum approves the decision.

The Vice President for Finance will prepare with input from the investment consultant, subject to the Committee's approval, individual manager investment objectives and guidelines for separate accounts that are appropriate for their particular asset class and investment style. To the extent that the Fund invests through mutual funds, commingled accounts or limited partnerships, it is expected that the Fund's objectives and guidelines will be closely aligned with those of the Pooled Investment Fund with the understanding, however, that these funds will be managed according to their prospectus and limited partnership agreements, and that customization of guidelines will generally not be possible.

Performance Monitoring

All guidelines and objectives shall be in force until modified in writing by the Committee. If, at any time, an investment manager believes that a specific guideline or restriction is adversely impeding its ability to implement its process or meet the performance objective, it will be expected to present this fact to the Committee.

Although managers' investment performance will normally be evaluated over rolling three to five-year periods, the Committee will regularly review each manager in order to confirm that the factors that led to initial performance expectations remain in place and that each manager's philosophy is appropriate for the Fund's overall objectives. The individually managed portfolios and the total Fund assets will be monitored for consistency of investment philosophy, return relative to objectives, and investment risk as measured by asset concentration, exposure to extreme economic conditions, and performance volatility.

The investment managers will generally report portfolio holdings and quarterly performance. Additionally, the managers should provide a written update concerning their current investment strategy and market outlook on a regular basis. Managers are required to inform the Vice President for Finance of any major change in firm ownership, organizational structure, professional personnel, accounts under management, or fundamental investment philosophy.

Investment Policy Statement Revisions

Revisions to the Investment Policy Statement will be approved by the Committee and the Board of Trustees.

Meeting Schedule

The Committee aims to meet no less than quarterly.

Social Responsibility

It is important to recognize that the University has a moral and fiduciary responsibility to pursue a reasonable rate of return, with appropriate diversification and risk, on its portfolio in order to support its mission and goals. Within this context, the Committee should endeavor to consider factors other than investment return in its investment choices in order to reflect the University's social and ethical principles, and will take proactive steps to invest in ways that are consistent with these principles wherever reasonably possible. In its consideration of its social responsibility in investing, the Committee will evaluate: 1) the exclusion from the portfolio securities of firms whose policies are contrary to the values the University adopts; 2) the investment in firms that demonstrate a high level of social concern; and 3) the influencing of the social behavior of invested firms through the exercise of ownership rights.

The University's mutual funds, commingled accounts or limited partnerships are only managed according to their prospectus and limited partnership agreements, so customization of guidelines is generally not possible for these investments. The Committee will not knowingly invest commingled funds with any manager whose stated strategy is inconsistent with our principles.

APPENDIX 1

Target Allocation

Asset Class	Current Policy Target	Role
US Equity	17%	Total return, growth
International Developed	13%	Total return, growth
Emerging Markets	7%	Total return, growth, diversification
Private Equity / Venture Capital	14%	Total return enhancement
Public / Private Equity	**51%**	
Marketable Alternatives	19%	Diversification, risk reduction
Marketable Alternatives	**19%**	
Marketable Real Assets	5%	Inflation hedge, diversification
Private Real Assets	8%	Inflation hedge, diversification
Real Assets	**13%**	
Domestic Fixed Income	12%	Deflation hedge, diversification
Global Fixed Income / Non-Dollar	4%	Deflation hedge, diversification
Cash	1%	Liquidity
Fixed Income	**17%**	