SAN FRANCISCO STATE UNIVERSITY FOUNDATION
INVESTMENT POLICY STATEMENT FOR ENDOWED FUNDS

Approved by the Investment Committee, August 26, 2022
Ratified by the San Francisco State Foundation Board of Directors, September 16, 2022

PREAMBLE

The San Francisco State University Foundation ("Foundation") exists to support the university's mission of educating and empowering its students, and doing so in ways that promote social justice and environmental sustainability. And just as the university's people invest their activities and energy to promote the students' futures, the Foundation's endowed and quasi-endowed funds (together, referred to as the "Endowment") must be invested in ways that reflect this purpose, as a core tenet of our fiduciary responsibility to secure endowment growth.

We value our investments as an extension of the university's mission, and consider it our fiduciary responsibility to advance social equity and environmental sustainability using capital markets. Environmental, social, and governance (ESG) investing mitigates risk, identifies opportunities, and improves returns. Therefore, the Foundation's endowed funds shall be invested consistent with the Foundation's fiduciary duties and in ways that promote these values.

I. ESG INVESTING

The Foundation will pursue environmental, social, and governance investments in a manner that is consistent with the Foundation's investment objectives (section II), by applying selective portfolio restrictions, and also proactively including investments that align with these principles:

A. Environmental Sustainability and Climate Action

a. SFSU students face the rewards and consequences of our decisions and actions regarding climate change and the anthropogenic causes of it. Our endowment divests from causes of climate change, and invests in solutions to it.

    i. We expand our divestment from coal and tar sands, to aim for full divestment from fossil-fuel-producing companies by 2025. In the meantime, no more than 5% of the endowment will be invested in fossil fuel companies, and only under active engagement in corporate governance, and significant measurable evolution of those companies away from fossil fuels and toward renewable energy.

    ii. Our endowment will move toward net-zero carbon emission with all expediency, marked by at least a 50% reduction in net carbon emissions from 2022 levels in 2030, at least a 75% reduction in 2035, and a 100% reduction in 2040. We will track our progress toward these goals using best available processes and technologies.

b. Energy efficiency and conservation are the "first fuels," before energy production. We invest in opportunities where reducing energy use is the goal, both in production and consumption.

c. Access to affordable energy is not equally or equitably distributed. We invest in opportunities that alleviate energy poverty by developing renewable and efficient sources in underinvested communities, both domestically and abroad.

d. We value water and recognize the many benefits and risks of water, which include its economic, social, ecological, and security dimensions, as well as diverse cultural and religious meanings.

    i. We invest in water-related projects that improve climate change adaptation and strengthen climate change mitigation.

    ii. We invest in opportunities where reducing water use is the goal both in production and consumption.

e. We value the conservation of natural resources, and their use in sustainable ways that support a healthy environment, biodiversity, ecosystem services, and the needs of current and future generations.

    i. We invest in opportunities that include an ecological lens in their governance structure.

    ii. We divest from companies that participate in deforestation and other practices that deplete natural resources.

B. Social and Racial Justice

a. We retain a fundamental and strong belief in market-based economics, in part because when managed and regulated effectively, markets offer powerful capabilities to drive truly equitable economic growth and redress inequitable imbalances in wealth and income distribution.

b. We value greater fairness in wealth and income across racial groups, marked by a narrowing of wealth gaps. We also value greater equity in wealth and opportunities, marked by the inclusion of all racial groups in all parts of the global economy. We will invest in underserved and underinvested communities.

c. Consistent with the exercise of its fiduciary duties, and to more fully reflect an abiding commitment to its mission and its core values of racial and gender equity, the Foundation seeks to achieve increased diversity within the endowment portfolio. To that end, we invest with a racial equity lens and in funds that are majority owned and/or managed by BIPOC and/or by women.

d. Within 5 years, and subject to all applicable fiduciary duties to steward and grow the endowment, the Foundation commits to measurable progress in growing the portfolio's diversity of underrepresented funds and fund managers -- i.e., BIPOC and women managers -- as reflected by the quarterly and annual metrics the Foundation will track with its investment advisor. We will measure our progress on a quarterly and annual basis, using the following metrics and definitions of fund and asset manager diversity:

    i. *Significantly diverse* shall be defined as asset managers with at least 33% ownership by women and/or BIPOC, or firms or strategies with at least 33% leadership by women and/or BIPOC.

    ii. *Majority diverse* shall be defined as asset managers with at least 50% ownership by women and/or BIPOC, or firms or strategies with at least 50% leadership by women and/or BIPOC.

    iii. *Majority people of color* shall be defined as asset managers with at least 50% BIPOC ownership, or firms or strategies with at least 50% BIPOC leadership.

The Foundation's investment advisor shall report on and make best efforts to improve these key statistics within the endowment portfolio over time by including prospective fund and asset managers who meet the above definitions in all considerations, with final selections being made in accordance with the best interests of and consistent with their fiduciary duties to the Foundation. The Foundation's investment advisor will consider the approach of all portfolio investment managers – including those who don't meet the definitions in i – iii above – to diversity in its evaluation criteria and ongoing monitoring, prioritizing partnership with managers that demonstrate a commitment to diversity and inclusion in their culture and/or improving their diversity practices over time.

e. We value fair labor practices and invest in opportunities that are exemplary in such areas as non-discriminatory hiring and promotion, worker participation and education, and workplace safety.

C. Governance

a. We value diversity and representation. Our investments can enhance social diversity by promoting businesses of diversely managed and owned assets. Our investments can also enhance biodiversity of living things.

    i. We invest in racially and socially diverse fund managers.

    ii. We invest in companies with racially and socially diverse owners.

    iii. We invest in companies that promote biodiversity and its preservation.

b. We value democratic and participatory systems of governance. Our investments can enhance and support companies that promote the health of, and operate in, democratic governments.

c. We value transparency in our investments, and in the systems of governance in which our investments work. We favor funds and assets that more freely share their information to allow us to measure our progress on all these values.

d. We value partnership with a mission-aligned investment advisor with a long commitment to sustainable investing and diversity, equity, and inclusion (DEI) in their own governance and staffing.

e. We support fund managers whose investment philosophy and strategy align with ESG investing.

II. FINANCIAL AND INVESTMENT OBJECTIVES

A. The primary long-term investment objective is to generate a stable and continuously growing income stream to support the charitable, educational, and scientific purposes of the Foundation and the university, while integrating environmental, social, and governance (ESG) factors into our investment process, inclusive of climate-related risks and opportunities. Managed appropriately, ESG integration can contribute to enhanced long-term returns and reduced risks which will allow the Endowment to achieve its goal of an average annual real (i.e., after adjusting for inflation) total return that is greater than the total spending rate (generally a minimum of 5.25% total return as outlined in section III). Consistent with the overall investment philosophy, the Endowment's ESG approach focuses on fundamental change. The Endowment's focus is not limited to companies that rate highly according to third-party research providers; it also includes companies that are demonstrating a commitment to improvement. The Endowment's focus and commitment can therefore be summarized by encouraging corporations to be leaders on sustainability through better long-term stewardship of human, natural and financial resources.

B. The long-term ESG objective of the Endowment is to pursue sustainability goals such as net zero carbon emissions which could take decades to actualize. The goal is to achieve the long-term sustainability goals as outlined in section I. Hence, evaluation of progress toward this objective should be made with a long-term perspective. For example, the Endowment emphasizes rolling returns over five-year investment horizons over performance changes on a year to year basis. Minimizing annual volatility is a top priority, however, second to meeting the long-term ESG goals of the Endowment. This objective implies a high average allocation to equity securities and consequent market price volatility.

C. The Endowment seeks a return on investment consistent with levels of investment risk that are prudent and reasonable given medium- to long-term capital market conditions and the ESG investment objectives of the Endowment. While the Endowment recognizes the importance of the preservation of capital, it also recognizes that to achieve the Endowment's investment objectives requires prudent risk-taking, and that risk is the prerequisite for generating excess investment returns. Therefore, risk cannot be eliminated but should be managed, and that fiduciaries have the obligation to utilize risk efficiently.

D. The desire to maintain the purchasing power of the Fund's principal and to produce a relatively stable and predictable spending stream involves trade-offs that must be balanced in establishing the investment and spending policies.

III. SPENDING POLICY

A. The general spending policy is a maximum payout of 4% (net of fees, which are 1.25%), using a 12-quarter moving average (see Endowment Establishment & Administration Policy).

IV. MONITORING

A. The Foundation requires quarterly reporting on performance metrics by its investment advisors. It also expects regular reporting (e.g., quarterly or annually as appropriate) on metrics that track the Endowment's abidance with the ESG principles (section I). In general, best current practices should be used to monitor ESG progress. Below are example ESG portfolio metrics that may be used.

1. Racial Equality
2. Gender Equality
3. LBGTQ Inclusion
4. Greenhouse Gas Emissions
5. Sustainable Product Life Cycle
6. Mindful Business Models
7. Clean Air
8. Pure Water

9. Ocean Life
10. Land Health
11. Ethical Leadership
12. Consumer Safety
13. Company Transparency
14. Fair Labor and Thriving Communities

V. FUND COMPOSITION AND ASSET ALLOCATION

A. It is anticipated that the portfolio will be diversified both by asset class (e.g., stocks and bonds) and within asset classes (e.g., within stocks by economic sector, quality, and market capitalization). The purpose of diversification is to enhance prospective returns, lower the volatility of the overall pool of assets, and provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total portfolio.

B. In order to achieve the long-term total return objective outlined in section II (a minimum of 5.25%), the portfolio will have significant exposure to equities. The expectation is that this equity exposure will support sustainability and long-term capital appreciation in order to facilitate the real growth of the principal and support a growing spending stream.

C. The portfolio will be diversified with an allocation to fixed income to provide a hedge against deflation and, secondarily, to provide a source of current income.

VI. AUTHORITY

A. It is the role of the Board of Directors of the Foundation (Board) to develop investment goals, objectives, and strategies for endowment funds held by the Foundation, in a manner consistent with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the Nonprofit Corporation Law of California; and to assure grantors, donors and potential donors that their funds will be managed prudently to support the long-term viability of the Board's programs. The purpose of this statement is to foster a clear understanding of the Foundation's financial and investment objectives and policies among the Board, the Executive Committee, the Investment Committee, the Foundation's staff, the Investment Advisor and the Foundation's investment managers. This investment policy supersedes all previous versions.

B. Endowment fund assets shall be invested in accordance with this policy and in compliance with State and Federal laws and regulations. This policy statement shall be reviewed periodically, to assess the appropriateness of the asset allocation policy, the investment objectives, the investment policies and guidelines, and the investment restrictions. The Investment Committee is charged with performing this review and shall recommend appropriate changes to the Board for approval at any time.

VII. REBALANCING

A. Rebalancing is designed to keep the portfolio in line with the policy allocation targets and target ranges established by the Committee. Current policy targets are set forth in **the Appendix**.

B. Policy targets are established to maintain the long-term strategic asset allocation of the Fund. The rebalancing process results in the movement of assets from recently strong performing asset classes, which may be overvalued, into weaker performing asset classes, which may be undervalued. The need to rebalance could be occasioned by the disproportionate movement of asset prices within a class relative to movement of prices in other classes, significant inflow of new gifts and/or extraordinary funding requirements of participating projects holding quasi-endowments. Over the long-term, this discipline is expected to enhance portfolio returns while reducing risk (volatility) by realizing gains in one asset class and using those funds to make additional purchases in the undervalued asset class.

C. It should be noted that quasi-endowments are also invested in the Endowment. Unlike true endowments, the quasi-endowments allow for distributions from the fund principal. Recognizing the possibility that the capital distribution from a large quasi-endowment could trigger the need to re-allocate the Endowment assets among investment managers, the Foundation should limit such distributions to once a year.

VIII. GUIDELINES FOR TRANSACTIONS

Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best realized net price. Consistent with the above, directed brokerage service arrangements may be put in place for payment of services rendered to the Fund in connection with its management.

APPENDIX

Asset Allocation Targets

The current asset allocation targets are reaffirmed on September 16, 2022, and are as follows:

Asset Class	**Long-Term Targets**
EQUITY ALLOCATION	
GROWTH ASSETS:	
Global Stocks	16%
U.S. Stocks	22%
Non-U.S. Stocks	15%
Emerging Markets Stocks	7%
Total Common Stocks	**60%**
Private Investments	10%
TOTAL GROWTH	70%
DIVERSIFIERS	10%
INFLATION PROTECTION	5%
TOTAL EQUITY ALLOCATION:	**85%**
Fixed Income	13%
Cash	2%
TOTAL FIXED INCOME ALLOCATION:	**15%**
TOTAL ASSETS	**100%**