

# **Investment Policy Statement**

**For**

**California State University,  
Los Angeles (Cal State LA) Foundation**

**Endowment Fund**

**Amended and Restated  
April 28, 2022**

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## EXECUTIVE SUMMARY

<b>Type of Plan</b>	Endowment Fund
<b>Current Assets:</b>	\$45,203,537.34 as of May 31, 2020
<b>Time Horizon:</b>	Into perpetuity Evaluation – 5 Years
<b>Expected Return:</b>	7.00%
<b>Risk Tolerance:</b>	Moderate
<b>Spending Policy:</b>	3 to 5% of Trailing 3 Years Average Market Value – Target of 3.75%

### Asset Allocation:

	<u>Lower Limit</u>	<u>Preferred Allocation</u>	<u>Upper Limit</u>
<b>Domestic Equities</b>	<b>13.0%</b>	<b>26.0%</b>	<b>39.0%</b>
Large Cap Equities	9.0%	18%	36.0%
<i>Growth Style</i>	4%	9%	18%
<i>Value Style</i>	4%	9%	18%
Mid Cap Equities	2.0%	4.0%	12.0%
<i>Growth Style</i>	1%	2%	6%
<i>Value Style</i>	1%	2%	6%
Small Cap Equities	2.0%	4.0%	12.0%
<i>Growth Style</i>	1%	2%	6%
<i>Value Style</i>	1%	2%	6%
<b>International Equities</b>	<b>12.0%</b>	<b>24.0%</b>	<b>36.0%</b>
Developed Equities	9.0%	19%	29%
Emerging Equities	1.0%	5%	10.0%
<b>Alternatives</b>	0%	<b>20%</b>	26%
Commodities	0%	2%	5%
Real Estate Investment Trusts (REITs)	0%	2%	5%
Multi Strategy Hedge Funds	0%	5%	10%
Energy and Natural Resources	0%	3%	5%
Credit Long/Short	0%	2%	5%
Private Equity	0%	2%	5%
Private Real Estate	0%	2%	7%
Private Credit	0%	2%	5%
<b>Fixed Income</b>	<b>20.0%</b>	<b>30.0%</b>	<b>40.0%</b>
U.S. Core Fixed Income	7%	14%	21%
Short-Term Fixed Income	5%	11%	17%
High Yield Fixed Income	0%	2%	8%
International Fixed Income	0%	1%	2%
Treasury Inflation Protected Sec (TIPs)	0%	2%	4%

**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:

- 26% Russell 3000 Index
- 19% MSCI EAFE Index
- 5% MSCI Emerging Markets Index
- 19% Barclays Capital Aggregate Bond Index
- 11% 90-Day Treasury Bills
- 16% HFRI EH Multi-Strategy Index
- 4% HFRI Relative Value FI – Corp Index

## **Statement of Investment Policy, Objectives, and Guidelines Cal State LA Foundation Endowment Fund**

### **MISSION OF FOUNDATION**

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

- Provide a structure for donors to support the future of Cal State LA.
- Provide long-term support for the mission of Cal State LA.

The Cal State LA Foundation Board of Trustees (Foundation) is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the California Nonprofit Public Benefit Corporation Law (NPBC Law) for public and charitable purposes to:

- a) Foster, encourage and promote the educational and charitable purposes of Cal State LA by constructing, establishing, maintaining, operating, conducting and giving to Cal State LA educational and charitable buildings, equipment and facilities or doing or causing to be done one or more of such things and all other things incidental thereto;
- b) Align all purposes and fundraising to support the strategic plan and vision of Cal State LA;
- c) Promote a greater and better understanding in the community of Cal State LA's proper role and its policies and as it relates to its development needs;
- d) Provide financial assistance by allocations, gifts, loans and other means to Cal State LA, its support groups, undergraduate and graduate students, faculty and staff;
- e) Do any other act and engage in and carry on any other activity in any manner connected with or incidental to, or calculated to promote, assist aid, or accomplish any of the aforesaid purposes; and,
- f) Provide management of all investment funds (short and long term).

## **SCOPE OF THIS INVESTMENT POLICY**

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

## **PURPOSE OF THIS INVESTMENT POLICY STATEMENT**

This statement of investment policy is set forth by the Cal State LA Foundation Board of Trustees and the Investment and Finance 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 and the Cal State LA Foundation Board of Trustees are fiduciaries and are responsible for directing and monitoring the investment management of the Endowment Fund (Fund) assets.

Background: Throughout the RFP (Request For Proposal) in 2013, the Board of Trustees and the Investment and Finance Committee evaluated the non-discretionary model, the fully discretionary model (Outsourced CIO) and the partial discretionary model (Hybrid) for the management of Fund assets.

Results: The Fund will be managed in accordance with the hybrid partial discretionary model. The Investment Management Consultant will have partial discretion over the management of the Fund, but the Investment and Finance Committee will not relinquish full control. The specific responsibilities and areas of discretion will be outlined below in the Assignment of Responsibility section of this statement.

The Investment and Finance Committee is authorized (with Foundation Board of Trustees 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 and Finance Committee in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; 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, certified public accountants, and others may be employed by the Investment and Finance Committee to assist in meeting its responsibilities and obligations to administer Fund assets prudently.
5. **Co-Trustee.** The Investment and Finance 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.

The Investment and Finance Committee will not reserve any control over investment decisions of individual securities. Investment managers will be held responsible and accountable to achieve the objectives herein stated.

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 Cal State LA Foundation Endowment Fund.
2. "Endowment Account" shall mean the individual permanently restricted account with the Cal State LA Foundation Endowment Fund.
3. "Investment and Finance Committee" shall refer to the governing body established by the Board of Trustees to administer the Fund as specified by applicable by-laws.
4. "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.



5. "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.
6. "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.
7. "Securities" shall refer to the marketable investment securities, which are defined as acceptable in this statement.
8. "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 five years.
9. "Total Return" shall refer to the aggregate return from capital appreciation and dividend and interest income.
10. "Active vs. Passive Investing" – Active investment management is overseen by investment professionals striving to outperform specific benchmarks. Passive investment management (i.e. index ETFs, index funds) attempts to replicate the return pattern of a specific benchmark. With active management, investment managers are hired based on the perceived value they can add above and beyond the benchmark. Passive management often stresses low costs, tax efficiency and the concept of market efficiency.

## **ASSIGNMENT OF RESPONSIBILITY**

### **RESPONSIBILITIES 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 document.
- 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 and Finance Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- 5) Voting proxies, if requested by the Investment and Finance Committee, on behalf of the Fund, and communicating such voting records to the Investment and Finance Committee on a timely basis.

## **RESPONSIBILITIES OF THE INVESTMENT AND FINANCE COMMITTEE**

The Investment and Finance Committee shall be composed of not fewer than three (3) Trustees. The Investment and Finance Committee shall supervise the investment of the Foundation's funds in accordance with Investment Policy Statements adopted by the Investment and Finance Committee and approved by the Board. The Investment and Finance Committee shall also oversee budgets and financial reports. The Investment and Finance Committee's responsibilities include:

- 1) Setting and revising investment policies, with Board approval. Developing investment objectives, asset allocation strategies, risk management strategies, spending policy and performance guidelines.
- 2) Recommending Investment Management Consultants and Advisors.
- 3) Reviewing and evaluating investment results.
- 4) Providing periodic performance reports to the Board prepared by the Investment Management Consultants.
- 5) Oversight of all investment accounts of the Fund. Reviewing recommendations of Investment Management Consultant in relationship to new investment strategies and/or passive investments.
- 6) Reviewing the material forwarded by the Investment Management Consultant in the event of a manager downgrade or new recommendation. The committee shall provide authorization to the Investment Management Consultant, in a timely manner, to terminate and replace the manager, if necessary.
- 7) Make recommendations to the Board of Trustees on the distribution rate.

## **RESPONSIBILITIES OF THE INVESTMENT MANAGEMENT CONSULTANT(S)**

The Investment Management Consultant's role is that of a partial discretionary advisor to the Investment and Finance Committee of the Cal State LA Foundation Board of Trustees. Investment advice concerning the investment management of Fund assets will be offered by the Investment Management Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Management 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 and Finance 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 and Finance 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 and Finance Committee.
- 6) Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Investment and Finance Committee.
- 7) Rebalancing portfolio within upper and lower limits of asset allocation guidelines.
- 8) Rebalancing portfolio between active and passive investment management strategies. Passive investments shall not exceed more than 50% of the aggregate investment portfolio.
- 9) Providing detailed information to the Committee if an investment manager is downgraded. Potential manager replacements will be reviewed at the next Investment and Finance Committee meeting unless the Investment Management Consultant determines that immediate action is necessary.
- 10) Recommending new managers and/or passive investment strategies.

## **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 and Finance Committee may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.
6. At its annual meeting in July 2006, the National Conference of Commissioners on Uniform State Laws (NCCUSL) approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and recommended it for enactment by the legislatures of the various states. California enacted the law effective, January 1, 2009.

UPMIFA is designed to replace the existing Uniform Management of Institutional Funds Act (UMIFA), which was approved by NCCUSL in 1972 and has since been enacted in 47 states. UMIFA was a pioneering statute, providing uniform and fundamental rules for the investment of funds held by charitable institutions and the expenditure of funds donated as “endowments” to those institutions. Those rules supported two general principles: 1) that assets would be invested prudently in diversified investments that sought growth as well as income, and 2) that appreciation of assets could prudently be spent for the purposes of any endowment fund held by a charitable institution. These two principles have been the twin lodestars of asset management for endowments since UMIFA became the law of the land in nearly all U.S. jurisdictions.

UPMIFA continues these fundamental principles as a needed upgrade of UMIFA. Both investment in assets and expenditure for charitable purposes have grown exponentially in the 35 years since UMIFA was drafted; asset management theory and practice have also advanced. UPMIFA, as an update and successor to UMIFA, establishes an even sounder and more unified basis for charitable fund management than UMIFA has done.

The Cal State LA Foundation, under the guidance of the Investment and Finance Committee, recognizes the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and will adhere to the guidelines of said Act.

Additional information regarding UPMIFA may be found at [www.upmifa.org](http://www.upmifa.org).

## **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 and Finance 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. Active and passive investment management styles are permissible for the Fund.
4. Adherence to Investment Discipline – Active and passive investment managers and passive instruments are expected to adhere to the investment management styles for which they were selected. Managers and investment instruments will be evaluated regularly for adherence to investment discipline.

## **GOAL OF THE CAL STATE LA FOUNDATION**

The Investment and Finance Committee believes that grants to be made in the future are as important as grants made today. This is consistent with the philosophy that this Endowment Fund is to exist in perpetuity, and therefore, should provide for grant making in perpetuity. To attain this goal, the overriding objective of this Foundation is to maintain purchasing power. That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the Endowment Fund's investment horizon. The Endowment Fund's specific investment objectives will be established later in this document.

## **ATTITUDE TOWARD GIFTS**

Future giving (contributions) to this Endowment Fund is expected to be inconsistent, and therefore, unpredictable. As a result, the Investment and Finance Committee has set an investment strategy with the objective of maintaining purchasing power of the Endowment Fund assets before consideration of gifts.

## **SPENDING POLICY**

The Investment and Finance Committee will attempt to balance the Cal State LA Foundation Endowment Fund's shorter-term grant making obligations with its goal to provide grants into perpetuity, and therefore design a spending policy, which is slightly flexible.

Spending for Fiscal Year 07/08 and beyond from the Cal State LA Unitized Endowment Pool (UEP) shall be in accordance with the following procedures:

1. Endowment contributions purchase units in the UEP based on the unit market value at the end of the month in which the contribution is received.
2. In January of each year, the average unit market value for the previous 36 months is calculated and serves as the basis for the spending allocation in the next fiscal year that starts in July. Referred to as the Fiscal Year Disbursement Average (FYDA). The number of units held by each Endowment Account is multiplied by the distribution rate approved by Board of Trustees, based on the recommendations of the Investment and Finance Committee to arrive at the annual spending allocation for that year. This amount is distributed to endowment holders on an annual basis. **The Investment and Finance Committee has set the distribution rate at a range of up to 5% with a target of 3.75% of the average unit market value.**
3. The Cal State LA Foundation Board of Trustees and the Investment and Finance Committee may consider special distributions in addition to the 3-5% distribution rate if necessary.
4. In the event that market losses decrease the unit value of an Endowment account below the cost basis, no distribution would be made to that account for that year, unless granted an exception by the Committee or Executive Director.
5. The Fund shall be subject to such Endowment Management Fees as approved by the Cal State LA Foundation Board of Trustees from time to time. This Assessment shall be in addition to program spending and direct cost associated with the Endowment Fund investment program. The target rate is 1%, but may be assessed up to 1.5%.

Therefore, expectations may be expressed by the following equation:

**Spending Formula**

	Total Return	7.00%
+	Gifts	0.50%
-	Spending	3.75%
-	Endowment Mgmt Fees	1.00%
-	Investment Manager Costs	0.44%
-	Investment Consultant Costs	0.29%
-	<u>Inflation</u>	<u>2.00%</u>
=	Real Growth	0.02%

**LOAN PROVISIONS**

Loans will be made available if approved and directed by the Cal State LA Foundation Board of Trustees. Such loans would be documented in writing and expected to be repaid according to the terms set forth by the Board of Trustees.

**INVESTMENT OBJECTIVES**

In order to meet its needs, the investment strategy of the Cal State LA Foundation Endowment is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

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

- Income & Growth – To achieve a balanced return of income and modest growth of principal.

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

- Preservation of Purchasing Power – To achieve returns that meet or exceed the rate of inflation over the investment horizon (5 years) in order to preserve purchasing power of the fund’s assets. Risk control is an important element in the investment of the fund’s assets.
- Preservation of Capital – To minimize the probability of loss of principal over the investment horizon (5 years). Emphasis is placed on controlling return volatility rather than maximizing return.

**INVESTMENT PHILOSOPHY**

**The basic tenets under which this Policy will be managed include the following:**

1. Modern Portfolio Theory will be the philosophical foundation for how the portfolio will be structured and how subsequent decisions will be made. The underlying concepts of Modern Portfolio Theory include:

- ❖ Investors are risk averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns;
  - ❖ Markets are efficient. It is virtually impossible to anticipate the future direction of the market as a whole or of any individual security;
  - ❖ The design of the portfolio as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes (stocks, bonds, cash, etc.) will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long term (preferably longer than ten years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface;
  - ❖ For a given risk level, an optimal combination of asset classes will seek to maximize returns. Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole; and,
  - ❖ Portfolio risk may be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected (Correlation is the statistical term for the extent to which two asset classes move in tandem or opposition to one another).
2. Investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.
  3. Equities have historically offered the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).
  4. Picking individual securities and timing the purchase or sale of investments are highly unlikely to increase long-term investment returns; they also can significantly increase portfolio operating costs. Such practices are, therefore, to be avoided.

Given these tenets, the underlying approach to managing this Policy shall be to optimize the risk-return relationship appropriate to the needs and goals of the California State University Los Angeles Foundation Endowment Fund. The Policy will be diversified globally employing a variety of asset classes. Mutual funds or managed portfolios will be employed to implement the portfolio and the chosen asset classes will be periodically re-balanced to maintain a more consistent risk/reward profile. In managing investment assets, every advisor has a unique style.



## **SPECIFIC INVESTMENT GOALS**

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

**An absolute rate of return of 7.00%.**

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment account (if more than one account is used).

## **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 and Finance 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 and Finance Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Cal State LA Foundation Endowment assets understands 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 and Finance Committee defines risk as (in prioritized order):

- 1) Probability of not maintaining purchasing power over the investment time horizon.
- 2) Probability of not meeting the Fund's liabilities or cash flow requirements.
- 3) Probability of losing money over the Fund's investment time horizon (5 years).

## **RISK TOLERANCE**

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns one must accept higher risk (e.g. volatility of return).

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Portfolio is the determination of the amount of risk the Board of Trustees and the Investment and Finance Committee can tolerate.

A comfort level with investment risk influences how aggressively or conservatively a portfolio can be invested. Like a scale, risk needs to be balanced with the need for returns to achieve the investment goals. The Investment and Finance Committee desires long-term investment performance sufficient to meet the objectives. The Investment and Finance Committee understands that to achieve such performance the portfolio may experience periods of decline. The Investment and Finance Committee further understand that in a severe market, the potential recovery period could be extensive.

The Investment and Finance Committee has agreed that they could not tolerate any loss over the investment time horizon of five years. Should the average rate of return of the Endowment Fund be worse than 0% over a five year period, the Investment and Finance Committee will conduct a thorough review of the entire investment portfolio, the investment manager(s) and the investment policy statement and make recommended changes, if any.

## **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 and Finance Committee will periodically provide investment management consultants with an estimate of expected net cash flow.

The Investment and Finance Committee will monitor the Endowment Fund's liquidity on an ongoing basis to deal with any unplanned cash requirements that might arise, but will not be required to maintain a minimum liquidity level.

## **MARKETABILITY OF ASSETS**

The Investment and Finance Committee does not require all Fund assets to be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price. Exceptions will be made for alternative investment allocations as defined in the "Guidelines for Non-Traditional/Alternative Investments" section. Exceptions will also be made (e.g. real estate) if illiquid assets are received and accepted or obtained by the Foundation, which are restricted for cause. No more than **20%** of the Fund may be invested in illiquid securities.

## **INVESTMENT GUIDELINES**

### **ALLOWABLE ASSETS**

1. Cash Equivalents
  - Treasury Bills
  - Money Market Funds
  - STIF Funds
  - Commercial Paper
  - Banker's Acceptances
  - Repurchase Agreements
  - Certificates of Deposit
2. Fixed Income Securities
  - U.S. Government and Agency Securities
  - Corporate Notes and Bonds
  - Mortgage Backed Bonds
  - Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs
  - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other “early tranche” CMOs
  - Preferred Stock
  - Fixed Income Securities of Foreign Governments and Corporations
  - Fixed Income Securities used for hedging strategies
3. Equity Securities
  - Common Stocks
  - Convertible Notes and Bonds
  - Convertible Preferred Stocks
  - American Depository Receipts (ADRs) of Non-U.S. Companies
  - Stocks of non-U.S. companies (Ordinary Shares)
  - Publicly Traded Real Estate Investment Trusts (REITs)
4. Mutual Funds and ETFs
  - Mutual Funds and ETFs that invest in securities as allowed in this statement.
  - Industry, Sub-Style or Sector Specific Mutual Funds and/or ETFs
  - Active or passively managed
5. Alternatives
  - As outlined in Guidelines for Non-Traditional/Alternative Investments (page 22)

## **SUSTAINABLE AND 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 Endowment Fund 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>
<b>Domestic Equities</b>	<b>13.0%</b>	<b>26.0%</b>	<b>39.0%</b>
Large Cap Equities	9.0%	18%	36.0%
<i>Growth Style</i>	4%	9%	18%
<i>Value Style</i>	4%	9%	18%
Mid Cap Equities	2.0%	4.0%	12.0%
<i>Growth Style</i>	1%	2%	6%
<i>Value Style</i>	1%	2%	6%
Small Cap Equities	2.0%	4.0%	12.0%
<i>Growth Style</i>	1%	2%	6%
<i>Value Style</i>	1%	2%	6%
<b>International Equities</b>	12.0%	24.0%	36.0%
Developed Equities	9.0%	19%	29.0%
Emerging Equities	1.0%	5%	10.0%
<b>Alternatives</b>	0%	20%	26%
Commodities	0%	2%	5%
Real Estate Investment Trusts (REITs)	0%	2%	5%
Multi Strategy Hedge Funds	0%	5%	10%
Energy and Natural Resources	0%	3%	5%
Credit Long/Short	0%	2%	5%
Private Equity	0%	2%	5%
Private Real Estate	0%	2%	7%
Private Credit	0%	2%	5%
<b>Fixed Income</b>	20.0%	30.0%	40.0%
U.S. Core Fixed Income	7%	14%	21%
Short-Term Fixed Income	5%	11%	17%
High Yield Fixed Income	0%	2%	8%
International Fixed Income	0%	1%	2%
Treasury Inflation Protected Sec (TIPs)	0%	2%	4%

**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:

- 26% Russell 3000 Index
  - 19% MSCI EAFE Index
  - 5% MSCI Emerging Markets Index
  - 19% Barclays Capital Aggregate Bond Index
  - 11% 90-Day Treasury Bills
  - 16% HFRI EH Multi-Strategy Index
  - 4% HFRI Relative Value FI – Corp Index
2. The Investment and Finance 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 Policy – The Investment and Finance Committee gives the Investment Management Consultant the authority to make tactical rebalancing changes provided that the Fund stays within the upper and lower limits of the asset and sub-style allocation guidelines as outlined in this document. In addition, the Investment and Finance Committee and the Investment Management Consultant will employ the “Threshold Rebalancing Policy”. In the event that the Fund assets move outside the above aggregate asset allocation guidelines, the Investment and Finance Committee gives the Investment Management Consultant the authority to bring the portfolio into balance, i.e. back into alignment within the upper and lower limits of the asset allocation guidelines. The Investment and Finance Committee will review the asset allocation on a quarterly basis.

## **GUIDELINES FOR EQUITY INVESTMENTS**

The Investment and Finance Committee believes it is necessary and/or desirable that securities held in the Fund represent a cross section of the economy. In order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 5% of the total fund, and no more than 20% of the total fund should be invested in any one industry.

## **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 10 years.

- 2) Diversification/Concentration:
  - 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 the US commercial banks not to exceed 20% of the portfolio; and not to exceed 5% of the portfolio with any one issuer.
  - 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.
- 3) Credit Quality:
  - 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.

## **GUIDELINES FOR NON-TRADITIONAL/ALTERNATIVE INVESTMENTS**

### **Definition:**

Non-Traditional/Alternative Investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies and, in many cases, organized in low or no tax jurisdictions. The managers of these investments generally are allowed to operate with greater flexibility than most traditional investment managers and their compensation usually includes substantial performance incentives.

### **Objective:**

Investment in alternatives may be considered by this organization within the context of an overall investment plan. The objective of such investments will be to seek to diversify the portfolio, complementing traditional equity and fixed-income investments and improving the overall performance consistency of the portfolio. It is acknowledged that there is no guarantee that this objective will be realized.

### **Transparency and Liquidity:**

It is acknowledged that these investments are less transparent than traditional investments and that liquidity in such investments is usually significantly limited. Liquidity constraints, including lockup provisions and redemption or withdrawal fees, must be taken into consideration when making allocations to such investments.

### **Allowable Strategies:**

Since alternative investments generally seek to provide diversification by investing in strategies that do not correlate directly with traditional equity and/or fixed-income investments, investments strategies may include, but are not limited to, the following:

- Statistical Arbitrage
- Distress Securities
- Bayesian Modeling
- Merger Arbitrage
- Momentum Trading
- Fixed Income Arbitrage
- Debt/Equity Financing
- Equity Long/Short
- Leveraged Buyouts
- Global macro
- Venture Capital
- Short Selling
- Mezzanine Debt
- Commodities and Futures
- Equity Market Neutral
- Structured Credit Products
- Convertible Arbitrage
- Special Situations
- Real Estate

The foregoing allowable strategies may be pursued in any manner including through collective investment vehicles such as hedge funds, funds of hedge funds, funds of funds, real estate funds and funds of funds, commodity pools, and structured credit products such as equity CDOs.

### **Allowable Investments:**

The above referenced strategies may include, but are not limited to, investments (directly or indirectly) in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short-selling and leverage.

### **Risk Acknowledgement:**

The organization acknowledges that: (1) alternative investments can be highly illiquid and may engage in leveraging and other speculative investment practices, which may involve volatility of returns and significant risk of loss, including the potential for loss of the principal invested; (2) that there is no secondary market currently available for interests in most alternative investments and that there may be restrictions imposed by the fund on transferring such interests as stated in the fund's private placement memorandum or prospectus; (3) that investing in alternative investments is only suitable for experienced and sophisticated investors who are willing to bear the high economic risks of the investment and that this organization qualifies as such an investor; (4) that it will carefully review and consider all potential risks before investing including the following specific risks:

- *loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;*
- *lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;*
- *volatility of returns;*
- *restrictions on transferring interests in the Fund;*
- *potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;*

- *absence of information regarding valuations and pricing;*
- *complex tax structures and delays in tax reporting;*
- *less regulation and higher fees than mutual funds; and,*
- *advisor risk.*

## **SELECTION OF INVESTMENT MANAGERS**

The Investment and Finance 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 and Finance 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 and Finance Committee intends to evaluate the portfolio(s) over a three to five 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 and Finance Committee plans to review investment policy at least annually.

This amended and restated statement of investment policy is adopted by the Board of Trustees of the California State University, Los Angeles (Cal State LA) Foundation Board of Trustees on April 28, 2022.