

**California State University, Dominguez
Hills Toro Auxiliary Partners "TAP"**

Long Term Investment Policy

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GENERAL INFORMATION

Fund name: California State University, Dominguez Hills TAP, Long Term Fund

Fund's mission:

California State University, Dominguez Hills TAP (“TAP”) established the Long Term Fund (“Fund”) for the benefit of the California State University, Dominguez Hills (“University”). The Fund holds revenue in excess of that needed to cover the Foundation’s operating costs and also includes capital reserves to fund future projects.

The Fund is intended to exist in perpetuity with potential for extraordinary withdrawals for long-term projects as approved by the TAP Board of Directors.

SCOPE OF STATEMENT

This Statement of Investment Policy (“Policy”) reflects the investment policy, objectives, and constraints of the entire California State University, Dominguez Hills TAP, Long Term Fund.

To assure continued relevance of the guidelines, objectives, and financial status as established in this statement of investment policy, the Board of Directors (“Board”) of the California State University, Dominguez Hills TAP plans to review investment policy at least annually.

PURPOSE OF STATEMENT

The Board of Directors of the California State University, Dominguez Hills TAP sets this statement of investment policy forth 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, including the Uniform Prudent Management of Institutional Fund’s Act (UPMIFA).
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 that 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.

A secondary, but equally important purpose of this document is to provide donors, prospective donors, and donation recipients with information about investment performance expectations, guidelines for distribution of earnings and levels of reimbursement of costs to the TAP.

UPMIFA: THE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

It is the intent of the Board of Directors of the TAP to have the Board and Executive Committee follow the provisions and apply the investment standards of UPMIFA (www.upmifa.org) in the management of the Fund's investment assets. In managing and investing an institutional fund, all of the following factors, if relevant, must be considered:

- General economic conditions.
- The possible effect of inflation or deflation.
- The expected tax consequences, if any, of investment decisions or strategies.
- The role that each investment or course of action plays within the overall investment portfolio of the Fund.
- The expected total return from income and the appreciation of investments.
- Other resources of the Fund.
- An asset's special relationship or special value, if any, to the charitable purposes of the TAP.
- The needs of the TAP and the Fund to make distributions and to preserve capital.
- Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the institutional Fund's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Fund and to the TAP.
- Except as otherwise provided by law other than UPMIFA, the TAP may invest in any kind of property or type of investment consistent with this section of the investment policy.
- The TAP shall diversify the investments of the institutional Fund unless it reasonably determines that, because of special circumstances, the purposes of the Fund are better served without diversification.

Within a reasonable time after receiving property, the TAP shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the institutional Fund into compliance with the purposes, terms, and distribution requirements of the TAP as necessary to meet other circumstances of the TAP and the requirements of this section of the investment policy.

A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds.

DELEGATION OF AUTHORITY

Board of Directors of California State University, Dominguez Hills TAP

The governing body of the Fund is the Board of Directors ("Board"), who have overall responsibility for Policy. As such, the Board is authorized to delegate certain responsibilities to others. The Board has delegated responsibility for the investment of the Fund's assets to the Executive Committee who has delegated certain responsibilities to appropriate experts.

In delegating these responsibilities, the Board and the Executive Committee shall follow UPMIFA's requirements to act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, in all of the following:

1. Selecting each agent to which responsibilities are to be delegated,
2. Establishing the scope and terms of each delegation, consistent with the purposes of the Foundation and the Fund, and
3. Periodically reviewing each agent's actions in order to monitor the agent's performance and compliance with the scope and terms of the delegation.

Responsibility of the Board of Directors

- Approve investment policy.
- Ensure that the costs are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution.
- Make reasonable effort to verify facts relevant to the management and investment of the Fund assets.

Executive Committee

The Board has established the Executive Committee ("Committee"). The Committee is responsible for directing management of Fund assets and monitoring compliance with their policies and guidelines. While the Board bears ultimate responsibility for the California State University, Dominguez Hills TAP, Long Term Fund, the Committee shall recommend to the Board the general policy for the Fund and shall be responsible for day-to day guidance, monitoring and oversight.

Responsibility of the Executive Committee

- Adhere to the guidelines as defined in the Uniform Prudent Management of Institutional Fund's Act (UPMIFA) and all other applicable regulations.
- Develop, review and present a Statement of Investment Policy to the Board.
- Develop, review and approve the overall asset allocation for the Fund, as developed by the Investment Management Consultant
- Periodically review and make recommendations to the Board regarding the spending policy of the Fund.
- Review the performance in light of the Fund's investment objectives.
- Appoint, evaluate and remove investment managers for the assets of the Fund.
- Appoint, evaluate and remove other service providers, such as investment management consultant and custodian, that it deems necessary for the Fund.
- Negotiate compensation arrangements with all service providers; control and account for all investment expenses
- Receive, review and retain the reports of the investment management consultant, and the custodian and other reports on the financial condition of the Fund.
- Manage and monitor all risks in the portfolio identified by the Investment Management Consultant.
- Designate an individual TAP staff person with the day-to-day administrative responsibility of the Fund.
- Report recommendations and conclusions to the Board.

As such, the Committee is also authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

Investment Management Consultant(s)

The Investment Management Consultant's ("Consultant") role is that of a non-discretionary Outsourced Chief Investment Officer to the Executive Committee of the Fund. 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.

Responsibility of the Investment Management Consultant(s)

- Manage the Fund’s assets in compliance with the standards according to Uniform Prudent Management of Institutional Fund’s Act (UPMIFA).
- Assist in the development and periodic review of investment policy and objectives.
- Determine the optimal asset allocation based on the organization’s risk and return objective and submit allocation to the Executive Committee for approval.
- Review the capital markets in light of the Fund’s investment objectives.
- Periodically review the asset allocation strategy. Recommend strategic and tactical asset allocation changes within the guidelines of the policy.
- The Investment Management Consultant has discretion to act within the guidelines of its contract and this IPS.
- Develop an investment policy designed to achieve the goals of the TAP taking into consideration desired return and risk along with any criteria developed by the Executive Committee (e.g. Socially Responsible Investing)
- Manage and track all defined risks to the portfolio.
- Regularly review any identified risks and their potential impact with the Executive Committee
- Attend quarterly meetings in person with Foundation’s Executive Committee, and/or its Board of Directors.
- Provide monthly Portfolio Review Statements
- Provide benchmark performance measurements
- Implement portfolio rebalancing upon direction of the Committee within the guidelines of the policy including socially responsible investing.
- Assist in compensation negotiations with investment managers, custodians and other service providers.
- Assist the Investment Committee in the determination, understanding, negotiation and accountability of all Fund investment costs.
- Conduct investment manager searches, make recommendations, provide “due diligence” or research on Investment Managers.
- Provide the performance of the total Fund and Investment Manager(s) to assist the Committee with the ability to determine the progress toward the investment objectives.

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- Communicate matters of policy, manager research, and manager performance to the Committee.
- Communicate matters of policy and investment direction to the investment managers when necessary.
- Review Fund investment history, historical capital markets performance and the contents of this investment policy statement with any newly appointed members of the Committee.
- The Investment Management Consultant must operate without any undisclosed conflict of interest.

Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction and within guidelines of their stated investment methodology.

Responsibility of the Investment Manager(s)

- Investment managers are required to maintain prudent diversification and manage the risk of their portfolios.
- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines of their stated methodology.
- Report, on a timely basis, quarterly investment performance results.
- Communicate any major changes to economic outlook, investment strategy, or any other factors that affect implementation of investment process, or the investment objective progress of the Fund's investment management
- Inform the Investment Management Consultant regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- Meet with the Investment Management Consultant and/or Investment Committee as needed.
- The Investment Manager must operate without any undisclosed conflicts of interest.

Custodian(s)

The custodian(s) 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(s) 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.

Other Professional Experts

Additional specialists such as attorneys, auditors and others may be employed by the Committee

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to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

GENERAL INVESTMENT PRINCIPLES

1. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
2. The Fund will comply with applicable laws and regulations and apply the standards of UPMIFA in managing the Fund.
3. The Board and Committee understand that risk is present in all types of securities and investment styles and recognize 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.
4. 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.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Fund is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. The Fund has a long-term investment horizon. The primary objective of the Fund shall be:

Preservation of Purchasing Power, net of spending - To achieve returns in excess of the rate of inflation, spending and expenses over the investment horizon in order to preserve purchasing power of Fund assets. Risk control is an important element in the investment of Fund assets.

INVESTMENT HORIZON

The Fund is perpetual, therefore the asset allocation will be viewed over longer term time periods (7+ years.)

SPECIFIC INVESTMENT GOALS

Target Return:

Over the investment horizon established in this statement, it is the goal of the aggregate Fund assets to exceed 5% + inflation net of all investment management expenses. The rate of inflation is defined as the annual rate of change in the Consumer Price Index – All commodities (Los Angeles Area) as measured for the annual periods ending with the month of May. Recognizing the volatility of both the equity and bond markets, it is understood that this objective may not be met on an annual basis. However, it is expected to be achieved when measured on a three-year rolling average basis.

AND

Composite Return:

The composite return represents a blended benchmark that is closely aligned with the investment policy target asset allocation. The composite benchmark is a blend of passive indices that best represent that target allocation and changes with investment policy amendments. The objective of the composite benchmark is to evaluate the value added from active management, rebalancing and tactical adjustments to the long-term target asset allocation.

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). 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 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, the portfolio beta, alpha, capture ratios and other forms of risk measurement.

INVESTMENT POLICIES AND PROCEDURES

Risk

The Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Fund 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 Committee defines risk as:

- The probability of not meeting the Fund's investment objectives.

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- The probability of not maintaining purchasing power over a long-term time horizon.
- The probability of not meeting the Fund's spending or cash flow requirements.

To measure risk for the management of the investment portfolio, a variety of risk measurements will be considered and evaluated. These risk measurements will be included in the quarterly performance reports. For the basis of comparison, a normal global portfolio is used as the benchmark. The risk benchmarks for the normal global portfolio are:

- 70% MSCI AC World Equity Index / 30% World Government Bond Index) as the risk benchmark.
- Volatility as measured by Standard Deviation – The volatility of the aggregate total portfolio will be monitored on a 36 monthly rolling period versus the volatility of the Normal Portfolio. The Foundation's target volatility is to be within a (+ -) 15% range of this risk benchmark as measured by standard deviation.

Asset Allocation

The Committee shall invest the Fund using an asset allocation that is designed to meet the Fund's long-term goals. The allocation will be based on the objectives of the Fund set forth in this policy statement.

The asset allocation shall be implemented using a policy portfolio with target allocations and ranges for each macro asset class. Due to the need for diversification and the longer funding periods for certain investment strategies, the Committee recognizes that an extended period of time may be required to fully implement the asset allocation plan. It is expected that market value fluctuations will cause deviations from the target allocations to occur.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Range</u> |
|--------------------|--------------------------|--------------|
| Equity | 55% | 40% - 65% |
| Fixed Income | 25% | 20% - 45% |
| Cash | 2% | 0% - 10% |
| Alternatives | 18% | 0% - 25% |
| Total | <u>100%</u> | |

Rebalancing

From time to time, market conditions may cause the Fund's investment in various asset classes to vary from the approved allocation. The portfolio will be rebalanced periodically as follows:

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The Investment Management Consultant will consider rebalancing the asset allocation quarterly when any asset class is outside the maximum policy allocation. Rebalancing the portfolio will distribute funds toward the target allocations such that no asset class is above its maximum allocation.

Rebalance activity incurred from deposits or withdrawals will be reported to the Committee at the next quarterly meeting.

Spending

When making spending decisions, the Board and the Executive Committee shall follow UPMIFA's requirements to act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, all of the following factors:

- (1) The duration and preservation of the endowment fund.
- (2) The purposes of the TAP and the endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation or deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the TAP.
- (7) The investment policy of the TAP.

Based upon the six month TAP operating cash "needs" projection report, funds may be transferred to/from the Long Term investment account as required.

The policy spending rate for the Fund shall be 5% of assets, determined 12/31 of each year. The Committee shall have the flexibility to distribute less than 5%, subject to Board approval.

Any contributions to or distributions from the Long Term Investment Fund shall be approved by the Executive Committee of the full Board of Directors.

The amount available for appropriation during each fiscal year shall be calculated by applying the policy spending rate, 5%, to the rolling 3 year moving average of the annual market values on Fund assets.

Liquidity

Liquidity is the time to convert a security to cash at little or no loss; maximums are put on each liquidity category based on the overall cash needs of the client. Certain investment strategies have different liquidity characteristics. To better define the liquidity of various investment strategies, the following definitions will apply:

Liquid – Marketable securities with daily liquidity or up to one-week, depending on capital market conditions.

Semi-liquid – Liquidity greater than one week or up to one-year depending on capital market conditions. Generally, this is quarterly liquidity and includes alternative investments with securities in limited partnership structures such as Hedge Funds, Managed Futures and other program structures.

Illiquid - Liquidity greater than one-year. Includes investments in Private Equity, Private Real Estate, Infrastructure and other investments that require a schedule of capital call funding and distributions over a longer than one-year time period.

Considering the various liquidity definitions, the table below will outline the liquidity restrictions for the portfolio:

| <u>Maximum % of Portfolio</u> | |
|-------------------------------|------|
| Liquid: | 100% |
| Semi-Liquid: | 30% |
| Illiquid: | 15% |

Operating Account:

The operating account will hold the capital reserves waiting for distribution and will be set aside from the investment portfolio in a separate account invested in short-term money-market or other liquid short-term instruments. These funds will be considered outside the strategic asset allocation of Fund investment assets. The amount of funds held in the operating account should be for relatively immediate distribution and not considered funds within the asset allocation management of cash. The Committee will notify the Investment Management Consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves to meet any net outflow.

SELECTION OF INVESTMENT MANAGERS

The Investment Management Consultant’s selection of Investment Manager(s) must be based on prudent due diligence procedures. The Manager selection process should include both quantitative and qualitative characteristics. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940 (“Act”), or an entity that qualifies for an exemption under the Act.

Investment Manager Risk:

Investment managers are required to maintain prudent diversification and manage the risk of their portfolios. The Investment Management Consultant will maintain responsibility for the evaluation of the diversification and risk management of the investment managers and their continued due-diligence to assure the investment managers are operating according to the stated investment methodology approved by the Investment Management Consultant and Investment Committee. In the evaluation of investment managers, the following risk factors and exposures will be considered but not be limited to the following:

Equity Managers

- Evaluating methodology of security selection and portfolio construction
- Benchmark used for performance evaluation
- Role of manager in the portfolio
- Diversification in economic & geographic sectors
- Diversification in market capitalization

Fixed Income Managers

- Evaluating methodology of security selection and portfolio construction

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- Benchmark used for performance evaluation
- Role of manager in the portfolio
- The overall duration and yield of the portfolio in relation to various specific benchmarks
- Diversification in economic sectors
- Diversification in the type of fixed-income securities
- The quality of the Securities
- The allocation of foreign security investing

Absolute Return / Equity Hedge and Real Asset / Real Return Managers

- Evaluating methodology of security selection and portfolio construction
- Benchmark used for performance evaluation
- Role of manager in the portfolio
- Gross & Net exposure to sub asset classes
- Diversification across investment strategy
- Diversification in economic & geographic sectors
- Leverage utilized
- Liquidity profile

SOCIALLY RESPONSIBLE INVESTING

The Board of Trustees of the California State University adopted a resolution urging auxiliary boards which make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investments. In response, the TAP states a primary fiduciary responsibility to maximize investment return, while taking into consideration appropriate risk, to further its educational purposes. At the same time, California State University endeavors to be a good corporate citizen and responsible investor.

The TAP recognizes that sometimes a corporation's policies or practices can cause substantial social injury; defined as, gravely injurious impact on employees, consumers, and/or other individuals or groups that results from specific actions by the company. For example, corporate actions may violate domestic or international laws intended to protect individuals and/or groups against deprivation of health, safety, or civil, political, and human rights.

Where the Committee finds that a company's activities or policies cause substantial social injury, and that a desired change in the company's activities would have a direct and material effect in alleviating such injury, it may exercise practicable shareholder rights to seek modification of the company's activities to eliminate or reduce the injury, using such means as a) direct correspondence with management and b) proxy votes.

If the Committee further concludes that the company has been afforded reasonable opportunity to alter its activities, and that divestment will not impair the capacity of the TAP to carry out its educational mission, then it may instruct its investment managers to divest the securities in question within a reasonable period of time.

PERFORMANCE MEASUREMENT

Performance Guidelines for Total Fund

Performance reports generated by the Investment Management Consultant shall be compiled

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quarterly and communicated to the Committee for review. Performance measurement will focus on the evaluation of meeting specific investment goals:

Target Return Benchmark – The aggregate performance of the Total Fund versus the target return goal (5% + CPI).

Composite Benchmark - The aggregate performance of the Total Fund versus the established policy benchmarks. (Made up of a static blend of market indices mirroring the policy asset allocation.)

Risk Benchmark - The aggregate performance of the Total Fund versus established composite global risk benchmark.

Performance Guidelines for Investment Managers

The goal of each investment manager shall be, but not limited to:

- Meet or exceed the market index or blended market index that most closely corresponds to the style of investment management on a risk-adjusted basis. A record of the benchmark parameters (indices, etc.) used to evaluate each investment manager is included in the quarterly performance monitors.
- Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified. Risk will be measured by, but not limited to standard deviation of quarterly returns, the portfolio beta, alpha and capture ratios. Investment managers are required to maintain prudent diversification and manage the risk of their portfolios.

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 desired investment results.

INVESTMENT POLICY REVIEW

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

This statement of investment policy is adopted on September 24, 2020 by the Board of Directors of the TAP.