# California State University, Dominguez Hills

## Philanthropic Foundation

## Investment Policy

## GENERAL INFORMATION

**Fund name:** California State University, Dominguez Hill, Philanthropic Foundation.

**Fund's mission:**
California State University, Dominguez Hills Philanthropic Foundation established the Philanthropic Foundation ("Fund") for the benefit of the California State University, Dominguez Hills ("University"). The Fund receives donations and is intended to operate in perpetuity sustaining a level of spending necessary to support operations of the University.

The Philanthropic Foundation represents the permanent funds of the Philanthropic Foundation which have been contributed by various donors, to provide revenue that will sponsor and support recognized functions or objectives of the University.

## SCOPE OF STATEMENT

This Statement of Investment Policy ("Policy") reflects the investment policy, objectives, and constraints of the entire California State University, Dominguez Hills Philanthropic Foundation.

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 Philanthropic Foundation plans to review investment policy at least annually.

## PURPOSE OF STATEMENT

The Board of Directors of the California State University, Dominguez Hills Philanthropic Foundation 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 Foundation.

## UPMIFA: THE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

It is the intent of the Board of Directors of the Philanthropic Foundation to have the Board and Finance 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 institution.
- The needs of the institution 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 institution.
- Except as otherwise provided by law other than UPMIFA, the institution may invest in any kind of property or type of investment consistent with this section of the investment policy.
- The institution 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 institution 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 institution as necessary to meet other circumstances of the institution 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

The governing body of Fund is the Board, who are fiduciaries and have overall responsibility for Policy. As such, the Board is authorized to delegate certain responsibilities to others. The Board has delegated responsibility for investing the Fund to the Finance Committee who has delegated certain responsibilities to prudent experts.

**Responsibility of the Board**

- Approving investment policies.
- Ensuring 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.

**Responsibility of Finance Committee**

- Projecting the Foundation's spending policy, financial needs, and communicating such needs to the Investment Advisor.
- Establishing overall financial objectives, risk tolerance, investment time horizon and setting investment policies and notifying the Investment Advisor promptly of any changes to this information.
- Setting parameters for the asset allocation.
- Selecting a qualified Investment Advisor.
- Selecting a qualified Custodian.
- Establishing a process and criteria for the selection and termination of the Investment Advisor and Custodians.
- Monitoring investment results regularly to assure that objectives are being met and the Investment Policy Statement guidelines are being followed.
- Communicating on a structured and ongoing basis with those persons responsible for investment results.
- Responsible for and empowered to exercise all rights, including proxy-voting rights.

**Responsibility of the Investment Advisor**

The Investment Advisor will be a discretionary advisor to the Finance Committee. Investment advice concerning the investment management of the Portfolio will be offered by the Investment Advisor, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Investment Policy Statement. The Investment Advisor may assist the Finance and Investment Committee in establishing investment policies, objectives and guidelines as is set forth in this Policy and as is amended from time to time. In addition, the Investment Advisor will be responsible to review Investment Managers, measure and evaluate investment performance, and other tasks as deemed appropriate. Ongoing investment decisions will be made on a discretionary basis by the Investment Advisor, within the investment and governance parameters delineated in this Investment Policy Statement.

The Investment Advisor represents that with respect to the performance of its duties under this Investment Policy Statement, it is a "fiduciary" and is registered as an Investment Advisor under the Federal Investment Advisers Act of 1940 (the "Advisors Act") and will perform the duties set forth hereunder consistently with the fiduciary obligations imposed under the Advisors act, and regulations promulgated thereunder and any interpretations thereof by the U.S. Securities and Exchange Commission, notwithstanding the potential conflicts of interest described below.

Specific responsibilities of the Investment Advisor include, but are not limited to:

- Assisting in the development and periodic review of the Investment Policy Statement, and asset allocation guidelines;
- Execution of the investment portfolio management, asset allocation, rebalancing and other day-to-day responsibilities on a discretionary basis within the guidelines of this Investment Policy Statement;
- Ongoing due diligence required to monitor the individual Investment Managers and to provide a periodic review of Investment Manager's performance considering among other factors, historical composite investment performance, investment risk, investment process and investment personnel.
- Reporting performance and return attribution.

**Responsibility of the Investment Managers:**

The Investment Managers have discretion to make all investment decisions for the assets placed under its jurisdiction by the Investment Advisor. The Finance Committee and the Investment Advisor desire to permit the Investment Managers flexibility to maximize investment opportunities and practice prudent management in order to conserve and protect the assets and to prevent exposure to undue risk. Specific responsibilities of the Investment Managers include, but are not limited to:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- Informing the Advisor regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment policy, etc.
- Voting proxies, if requested by the Finance Committee, on behalf of the Foundation and communicating such voting records to the Finance Committee on a timely basis.

**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 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 4% + 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.

- 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 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, as set forth in the Asset Allocation Addendum, with target allocations and parameters 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.

The strategic asset allocation outlined in the Asset Allocation Addendum utilizes Modern Portfolio Theory with inputs provided and the methodology outlined in the Assumptions and Methodology Addendum. The purpose and objective of this analysis is to illustrate and compare the risk and return characteristics of the portfolio's strategic asset allocation in line with investment objectives. There are inherent limitations for any analysis predicated on probabilistic forecast of the behavior of the forward capital markets. That being said, the statistical analysis outlined in the appendix does provide valuable insight to the risk and return characteristics of the portfolio.

The strategic asset allocation targets and asset class limits are provided in the Appendix of the policy statement and subject to modification and change based on recommendations from the Investment Advisor and approval of the investment committee.

**Tactical Adjustments**

The asset allocation targets in the appendix indicates both an initial target allocation and a range for each investment category. From time to time, based on changing economic circumstances, funding of capital commitments, and the various relative investment opportunities the Investment Advisor has discretion to make changes to the target allocations. The Investment Advisor may determine and execute such changes as would be within the stated guidelines of this Investment Policy Statement and will notify the Finance Committee when changes are implemented.

**Start-Up and Transition Periods:**

The fiduciaries understand and acknowledge that it may not be prudent for the Investment Advisor to fully populate the portfolio with securities that are consistent with this policy immediately upon the “Start-up period” or immediately following a material change to the policy (the “transition period”). During a start-up or transition period, the portfolio may not fully reflect the policy requirements. It is expected that under normal circumstances start-up and transition periods may last several months or more

**Asset Class Guidelines**

The Investment Advisor may populate any of the asset classes described below with mutual funds, exchange traded funds or collective trust funds (collectively “Funds”). The fiduciaries understand and acknowledge that the Investment Advisor has no control over the management or portfolio composition of any Fund. While the Investment Advisor will use its best efforts to utilize funds with investment objectives and policies that are generally consistent with the policy guidelines, the Finance Committee understands that individual fund’s portfolio holdings may not at all times be consistent with the policy guidelines.

**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:

The Investment Advisor will rebalance the asset allocation 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. Cash flows into or out of the Fund will be utilized to rebalance the portfolio as close to the strategic asset allocation as possible or toward a tactical allocation. Tactical allocations must be within the maximum allocation limits provided. Rebalance activity incurred from deposits or withdrawals will be reported to the Committee at the next quarterly meeting.

**Spending**
The CSUDH Philanthropic Foundation shall distribute to the spending accounts an amount equal to 4% of each endowment fund based on a 36-month moving average market value, determined as of December 31 of each year for the following fiscal year's allocation.

No distribution will be made from an individual endowment if its corpus value is equal to or less than 90% of its historical gift value. Partial distributions will be made as long as the distribution shall not cause the historical gift value to drop below 90%.

<u>Operationalizing the Spending Policy</u>
The university endowment is invested as a pool, but it is comprised of many individual accounts established by donors and/or the campus, each with their own unique restrictions and spending limitations. This allows for economies of scale for investment options, but requires diligent accounting to ensure proper allocation of gains/losses to each account.

The university will utilize Fundriver to unitize the endowment. With unitization, each account will own units in the overall endowment portfolio, much like mutual funds. This will factor in the timing of new investments, and provide accuracy of gains/losses to each account. Fundriver also allows for unique spending policy exceptions (such as Osher endowments) that don't follow the standard spending policy.

Fundriver will be updated with the endowment market value monthly. This will allow the 36 month smoothing average to be factored into the spending policy calculation. The valuation date for the annual distribution will be the December 31 portfolio value for the following fiscal year distribution.

Fundriver will produce an annual spreadsheet, that combined with data from the accounting database, will be used to inform division, college and unit heads of the endowed accounts assigned to their entities with the following data points:

- Account number
- Account name
- Account purpose
- Market value
- Spending distribution
- Existing balance of spending account

This information should be distributed no later than the second week of February, so that fund "owners" (faculty and administrators assigned to oversee each fund) can make budgetary decisions and scholarship awards for the upcoming fiscal year.

**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 follow 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:

| Maximum % of Portfolio | |
|---|---|
| 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 Advisor 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 Advisor'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. The Investment Committee will use the services of a qualified Investment Advisor to assist in the Manager Selection and evaluation process.

**Investment Manager Risk:**
Investment managers are required to maintain prudent diversification and manage the risk of their portfolios. The Investment Advisor 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 Advisor 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
- 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, Private Equity 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 Foundation 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 Philanthropic Foundation 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 Foundation 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.

The goal of portfolio is the integration of social and environmental criteria into the investment portfolio. The strategy will focus on initiatives including a holistic set of diversity, such as, but not limited to, access to education, healthcare, and diversity across Board of Directors and senior management as well as diversity-related controversies such as sexual harassment and discrimination. The strategy may also include investments that generate positive environmental impact and/or remove investments that negatively impact the environment.

## PERFORMANCE MEASUREMENT

Performance Guidelines for Total Fund

Performance reports generated by the Investment Advisor shall be compiled 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 (4% + 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 Board plans to review investment policy at least annually.

This statement of investment policy is adopted on December 3, 2020, 2020 by the Board of the Philanthropic Foundation.

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# ASSET ALLOCATION ADDENDUM

## ASSET ALLOCATION GUIDELINES

The following analysis will review the Philanthropic Foundation fund investment portfolio in light of the current forecast for the economy and the expected returns for various asset classes. The strategic asset allocation outlined utilizes Modern Portfolio Theory through Mean Variance Optimization software with inputs provided and the methodology outlined in Assumptions and Methodology Addendum. The purpose and objective of this analysis is to illustrate and compare the risk and return characteristics of the portfolios strategic asset allocation in line with investment objectives. There are inherent limitations for any analysis predicated on probabilistic forecast of the behavior of the forward capital markets. That being said, the statistical analysis outlined does provide valuable insight to the risk and return characteristics of the portfolio.

Minimum and Maximum Allocations (Detailed Asset Classes):

The asset classes are more granular allowing for more specific inputs and therefore more specific estimates for expected return, volatility and correlation. The “maximum only” allocation limits provide a risk limit to each asset class recommendation, but does not mandate any specific minimum allocation. This provides some additional flexibility for recommendations beyond a strict policy portfolio orientation.

| Strategic Asset Class | Strategic Asset Allocation | Lower Limit | Upper Limit |
|---|---|---|---|
| Global Public Equity | 60% | 40% | 80% |
| Global Fixed Income | 20% | 10% | 40% |
| Hedge Funds | 10% | 0% | 20% |
| Private Equity | 5% | 0% | 15% |
| Real Assets | 5% | 0% | 15% |
| Total | 100% | | |

## ASSET ALLOCATION ANALYSIS

See attached