



**POLICY & PROCEDURE MANUAL**  
*California State University*  
Channel Islands Foundation

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## **INVESTMENT POLICY STATEMENT**

### **A. Statement of Purpose**

1. Set Board and Finance & Investment Committee objectives and goals on:
  - a. Monitoring investment performance
  - b. Prescribing a general course of action to guide the selected Investment Advisor(s)
  - c. Establishing restrictions on investment allocations, types, and management
  - d. Outline procedures and policy for performance review
2. Establish Investment Policy for use by the Finance & Investment Committee using long-term rates of return to serve as the standard to evaluate investment performance

### **B. Statement of Responsibilities**

1. Foundation Board – adopts Investment Policy generally based upon Committee recommendation
2. Finance & Investment Committee – develops Investment Policy and recommends such to Foundation Board
  - a. Reviews service and performance of the various investments and individual managers on a quarterly basis, or more frequently if needed.
  - b. Evaluates performance of Investment Advisor and recommends changing Investment Advisor as may be necessary. The recommendation and selection of the many various investment managers or funds is the essence of service provided by Investment Advisor.
  - c. On a regular basis:
    - i. Meets or directly interacts with Investment Advisor(s) on overall portfolio and the recommended individual investment manager's performance,
    - ii. Reviews market conditions and considers any recommended re-allocation, to be consistent with Investment Statement ranges and provides general course of action to guide Investment Advisor(s), and
    - iii. Assures restrictions on investment allocations, types and management are followed.
3. Review Foundation's fiscal reports and recommends on proposed budget
4. Investment Advisor – responsible for timely advising to the Finance & Investment Committee on changing market conditions, investment policy, selection of the various investment managers or funds, on the individual investment manager's or fund's performance and the portfolio's overall performance, and provides expert performance analysis, recommendations, and monitoring services.
  - a. Investment Advisors are responsible for investing and managing the Foundation's assets in accordance with this Investment Policy and all applicable law
  - b. They shall have at least 10 years of experience in advising non-profit entities with an aggregate or total in principal corpus foundations of \$5 billion
5. Investment Manager(s) – Finance & Investment Committee understands that the private profit making managers of the selected investment products act on a "discretionary" basis in accordance with each fund's internal investment policy, not the Foundation's.

### **C. Statement of Spending Policy**

1. Program Distribution – Distributions should be at no more than 5% of the market value of a distinct or individual endowment's principal or corpus amount, subject to:

- i. If market value of an individual endowment falls below the permanently restricted amount, the spending rate will not exceed the amount of dividends and interest earned by the endowment
- ii. If annual return on market value of an individual endowment falls below the percentage in I above, the spending or distribution rate may be reduced
- iii. If an endowment has unique spending requirements that differ from Item C.I., above, then the spending rate will be as stipulated by that endowment

2. Annual spending rate will be determined each year by the Board of Directors
3. Annual spending rate is the market value using a 12 quarter moving average

D. Medium and Long Term Performance Objectives. Guided by the more restrained risk tolerance normally associated with investing funds for a non-profit foundation supporting a public university and one with a perpetual life expectancy:

1. Promote growth sufficient to offset normal inflation (Higher Education Price Index – HEPI)
2. Support the spending policy
3. Maintain purchasing power in perpetuity
4. Provide operating cash and reserves
5. Achieve market-level income.
6. The minimum total-return objective for the Permanently Restricted Endowment (PRE) Net asset class shall be HEPI plus 5%

E. Target Asset Allocation

The general policy shall be to diversify investments among both equity, fixed-income and alternative strategies to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

**FROM:**

Endowment Pool	Permanently Restricted		Temporarily Restricted		Unrestricted
	Range	Target	Range	Target	
US Equity	24-46%	35%	0%-25%	20%	
Non-US Equity Developed	10%-20%	15%			
Non -US Equity Emerging	0%-7%	5%			
US Fixed Income-Short/Interm.	4%-13%	8.40%	75%-90%	80%	100%
Non-US Fixed Income-Global	0%-11%	8.30%			
Unconstrained Fixed Income	0%-11%	8.30%			
Alternatives	0% - 27%	20%			

**TO:**

Asset Allocation	Current Asset Allocation							
	Permanently Restricted (Endowment)			Temporarily Restricted (Non-Endowed Funds)			Unrestricted	
	Range	Target	Proposed Target	Range	Target	Proposed Target	Target	Proposed Target
US Equity	24%-46%	35%	35%	0%-25%	20%	20%		
Non-US Equity Developed	10%-20%	15%	15%					
Non-US Equity Emerging	0%-7%	5%	5%					
<b>Total Equities</b>	<b>34%-73%</b>	<b>55%</b>	<b>55%</b>	<b>0%-25%</b>	<b>20%</b>	<b>20%</b>	<b>0%</b>	<b>0%</b>
Non-US Fixed Income-Global	0%-11%	8.3%	5.0%					
Unconstrained Fixed Income	0%-11%	8.3%	5.0%					
US Fixed Income-Short/Interm.	<del>4%-13%</del> 4%-20%	8.4%	10.0%	<del>75%-90%</del> 70%-90%	80%	75%	100%	95%
<b>Total Fixed Income</b>	<del>4%-35%</del> 4%-42%	<b>25%</b>	<b>20%</b>	<del>75%-90%</del> 70%-90%	<b>80%</b>	<b>75%</b>	<b>100%</b>	<b>95%</b>
<b>Alternatives</b>	<b>0%-27%</b>	<b>20%</b>	<b>20%</b>			<b>0%</b>		<b>0%</b>
<b>Cash &amp; Cash Equivalents</b>	<b>0%-10%</b>	<b>0%</b>	<b>5%</b>	<b>0%-10%</b>	<b>0%</b>	<b>5%</b>	<b>0%</b>	<b>5%</b>
<b>TOTAL</b>		<b>100%</b>	<b>100%</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The Board delegates authority to the Finance & Investment Committee who will direct the Investment Advisor(s) to adjust the portfolio within the above Ranges and Targets.

**F. Portfolio Rebalancing**

1. The Finance & Investment Committee may rebalance funds within the designated ranges:
  - a. If at the end of a quarter, when there is a 5% variance from the adopted target allocation, or
  - b. If a substantial variance occurs before a quarter ends, the Finance & Investment Committee shall guide Investment Advisor(s)
2. At the end of each fiscal year, the Finance & Investment Committee shall review the entire portfolio for consistency with Target Asset Allocation established in the Investment Policy.
3. Foundation investment advisor shall monitor targets and asset allocations.

## G. Investment Policy Statement Guidelines

General Statement: The guidelines apply to gifts and donations placed in three classes of investments – Permanently Restricted Endowments, Temporarily Restricted, and Unrestricted Current Net Asset Classes. The Board shall limit placing investments with firms and/or instruments that adhere to established guidelines and that meet the standards of prudent investment management.

1. Donor restricted endowments (UNCHANGABLE INVESTMENTS):
  - a. Donor shall engage independent tax counsel to review gift/donation to assure Board that there will be no adverse tax consequences
  - b. Donor's investment instructions may be followed provided they are compliant with CI Foundation investment policy
  - c. The Board may reject any gift/donation
2. Investment types permitted  
Investments to be made into three investment types: Permanently Restricted Endowment, Temporarily Restricted, and Unrestricted Current Net Asset Classes.
  - a. Permanently Restricted Endowment
    - Time horizon - greater than 5 years extending beyond a normal market cycle
    - Risk tolerance - above average
    - Use professional management and sufficient portfolio diversification to moderate volatility and achieve consistent returns
    - Preserve principal
    - Expenditures based on terms of donor contract
    - New investments – 50% fixed income securities plus 50% equity assets
    - Long term investments– 35% fixed income securities plus 65% equity assets
  - b. Temporarily Restricted
    - Time horizon - 0-5 years
    - Risk tolerance - average and limited to normal market cycle
    - Minimum return(s) should reasonably coincide with minimum earning guidelines.
    - Target asset allocation range: 0-20% High Quality Equity + 75-90% fixed income
    - Range can vary based on target projects
    - Adjustments to be made (at a minimum) quarterly based on distribution schedules
    - Foundation CFO to communicate decisions to investment manager
  - c. Unrestricted Current Net Asset Classes
    - Time horizon – less than 3 years
    - Risk intolerant
    - Investments limited to short term, high quality fixed income and money market instruments

## H. Benchmarks

- |                         |   |
|-------------------------|---|
| 1. Domestic Equity      | Russell 3000                              |
| 2. International Equity | MSCI ACWI ex US                           |
| 3. Fixed Income         | Bloomberg Barclays Capital Aggregate      |
| 4. Cash                 | US Treasury Bill average for past quarter |
| 5. Alternatives         | Appropriate based on strategy             |

I. Prohibited Activities

The following investments are not allowed as independent investments within a separate account, but are allowed inside managed hedge funds under the Alternative Investment Category or within a mutual fund for the other asset classes and requires authorization by the Investment Committee. The portfolio's allocation range:

1. Trading in securities on margin
2. Trading in commodity futures
  
3. Purchasing "puts" and "calls" and "straddles"
4. Selling and purchasing warrants and options without prior written approval
5. Selling short
6. Derivatives
7. Any additional Investments which increase risk and integrity of the non-profit status of the Foundation beyond those identified above (#1-6)

J. Treatment of Donated Securities (SALE OF DONATED SECURITIES)

Donations of publicly traded securities shall be sold within one business day of knowledge of receipt.

K. Liquidity

1. Finance & Investment Committee to monitor cash flow to ensure sufficient liquidity to fulfill the spending objectives and operational costs of the Foundation
2. Finance & Investment Committee will notify the Investment Advisor(s) 30 days in advance to allow adequate time to acquire the necessary liquid reserves

L. Investment Performance Review and Evaluation

1. Investment Advisor(s) to report not less than quarterly to the Finance & Investment Committee to include:
  - a. Portfolio performance (comparative gross returns and respective benchmarks)
  - b. A complete accounting of all transactions (beginning balance, fees, capital appreciation, income, and ending balance for each account)
2. Board may request a meeting

M. Policy Changes

Require the Investment Advisor to inform the Board when guidelines prevent achievement of stated goals and objectives.

N. Investment Policy Review and Revisions

Review of Investment Policy shall occur periodically but no less than once every three (3) years.

O. Investment Strategies

- I. Equity Investments
  - a. Common Stock
    - Principal investment category
    - Emphasis - high quality investment grade, financially sound companies with favorable growth in earnings prospects
    - Seek diversity (industry/capitalization rate/relative value/country of domicile)
    - Single issue limit - no more than 5% of equity portfolio
    - Industry sector limit - no more than 15% portfolio
    - Preferred Stock, Convertible Securities, and REITs are considered equity
  - b. Commingled Accounts
    - If separate account vehicles are not available, the Foundation may use mutual funds or exchange-traded funds (ETF's) as vehicle for equity exposure.

## 2. Fixed-Income Investments

### a. Bonds

- Most fixed income investments are to be invested in high-quality corporate, Treasury and US Government Agency bonds
- The average credit quality shall be investment grade
- Suggested mix/diversification shall be accomplished through a mutual fund

### b. Money Market or Cash-Equivalent Investments

- Not considered an appropriate vehicle for Permanently Restricted Endowment assets except as:
  - i. Depository for income distributions from longer-term investments, or
  - ii. Temporary funds placement pending investment into longer-term capital markets.
- Normal investment type for contributions to the Temporarily Restricted and Unrestricted Current Net Asset Class as a means to generate current operating cash
- Only highest quality (A1-PI, Moody's, S&P rated) commercial paper and Treasury Bills normally found in money market funds acceptable

## 3. Alternative Investments

Allowed only in Permanently Restricted Endowment Net Asset Class (example: alternative asset classes may include but are not limited to, marketable securities, private real estate, commodities, hedge funds, private equity or venture capital investments, held in the form of professionally managed pooled limited partnership investments)

## P. Total Return

Endowment assets will be managed on a total return basis while taking into account the level of investment income required. While the University recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk is generally rewarded with concomitant returns over the long-term.

## Q. Prudent Man Rule

Endowment assets will be managed to ensure that the investment program complies at all times with applicable local, state and federal statutes and regulations. Specifically, the management of the Endowment will be governed by the "Prudent Man Rule." "The Prudent Man Rule" is a flexible legal investment standard that allows a fund fiduciary to evaluate the merits of specific investments based on prevailing circumstances, and the intended role of the investment within the context of the aggregate portfolio. In addition to the investment program will adhere to all aspects of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

## R. Social Responsibility

The Foundation's position in the areas of Environmental, Social and Governance (ESG) and Socially Responsible Investing (SRI) as they apply to the investment portfolio of the CSU Channel Islands Foundation is that, as long as the portfolio's risk/return characteristics are not adversely impacted, the Foundation prefers to invest with fund managers who have incorporated ESG and SRI principles in their investment processes. The investment advisor will monitor the risk/return characteristics (including the portfolio's forecasted tracking error, forecasted beta, and forecasted volatility) and report these to the Finance Committee.

The CSU Channel Islands Foundation operates in this manner because we believe:

- This is consistent with fiduciary obligations to constituents in the light of changing external markets and world conditions.
- These actions may lead to better endowment returns if prudently and properly managed.
- ESG and SRI have impact on the long-term sustainability of companies and assets, and therefore form an important input to the risk management process.
- Investment managers who effectively manage the risks and opportunities arising from ESG and SRI issues are likely to be more successful over the long term than those that do not.

Investment managers that manage separate account portfolios for the Foundation are required to implement ESG and SRI issues within their investment processes in all new or renegotiated fund manager guidelines. Integration of ESG and SRI requires that the impact of any of these issues on the price of a company is included in the evaluation process.

### Portfolio Exclusions

The following companies/industries are to be excluded in the ESG/SRI implementation:

- Fossil fuel companies (oil, gas and consumable fuels)
- Companies that receive any revenue from the production of tobacco
- Companies involved in the production and distribution of civilian firearms
- Companies involved in predatory lending.

### CSU Channel Islands Social Profile

In addition to the portfolio exclusions, a Social Profile will be used as a guideline for the ESG/SRI investments. The purpose of the profile is to align the investment portfolio with the values of the University. An annual review of the profile will be performed in consultation with the CSU Channel Islands Foundation Board, the Foundation Investment Advisor, and students at the California State University Channel Islands.

This profile is utilized to tilt the portfolio towards companies whose beliefs and standards align with the institutional values of California State University Channel Islands. The Social profile includes the following investment themes: Environment, Human Rights, Diversity, Workforce, Governance:

CAL STATE UNIVERSITY CHANNEL ISLANDS SOCIAL PROFILE			
Theme	Weight	Scoring Component	Weight
Environment	25%	• Environmental Management	10.00%
		• Toxic Emissions	3.75%
		• GHG Management	3.75%
		• Environmental Controversies	0.83%
		• Environmental Supply Chain Controversies	0.83%
		• Climate Change Controversies	0.83%
		• Energy Management	2.50%
		• Water Management	2.50%
		Human Rights	12.5%
• Human Rights Controversies	0.62%		
• Human Rights Supply Chain Controversies	0.62%		
Diversity	25%	• Diversity Policy & Management	11.25%
		• Diversity Performance	11.25%
		• Diversity Controversies	2.50%
Workforce	12.5%	• Workforce Relations	7.75%
		• Organized Labor	3.50%
		• Labor Rights Controversies	1.25%
Governance	25%	• Board Governance Concerns	5.00%
		• Board Member Attributes	7.50%
		• Board Structure and Policy	5.00%
		• Governance Controversies	2.50%
		• Ethics & Corruption Management	5.00%

The Investment Advisor will provide the Committee with ESG/SRI investment options as they become available to the portfolio.

The Investment Advisor will also provide the Committee with a report showing the exposure to the restricted companies within the Foundation's non-separately managed investments.