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## SECTION 9 – INVESTMENT POLICY

*Policy Sequence 9-000*

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## Long Range Investment Objectives and Policy Statement for Foundation Pooled Assets

Policy #9-010.1

### Purpose:

The purpose of this statement is to establish a clear understanding between the California State University Long Beach Foundation (CSULBF) and Investment Consultant(s) of the investment policies and objectives of managing assets. This statement outlines an overall philosophy that is specific enough for the Consultant to know what is expected, but sufficiently flexible to allow for changing economic conditions and dynamic securities markets. This statement provides realistic risk policies to guide the Consultant toward long-term rate of return objectives which serve as standards for evaluating investment performance. This statement establishes the investment restrictions placed upon the Consultant and outlines procedures for policy and performance review.

### Investment Objectives:

The long range investment goal of the CSULBF is to achieve a maximum rate of return on assets consistent with prudent investment management. This policy, which emphasizes preservation of capital, should enhance "real" asset value and provide liquidity sufficient to meet unexpected cash needs. "Real" asset value is defined as protection of the investment principal from its loss of purchasing power over time.

### Policy Statement:

1. It is the policy of the CSULBF to give the Investment Consultant(s) full discretion in all investment decisions subject to the restrictions stated below. CSULBF expects the assets to be invested with care, skill, prudence, and diligence under the circumstances prevailing from time to time that a prudent expert acting in a like capacity and familiar with such matters would use in the investment of funds of like characters with similar aims. In the event of a significant decline in the total asset value, the Investment and Finance Committee will meet with the Investment Consultant(s) to assess the current market conditions and determine if any action should be taken in order to preserve the capital.
2. The investment performance objective is to obtain a return consistent with the Foundation's spending policy (Policy #9-070.1). 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 over a minimum three-year average. Furthermore, the Investment Consultant is expected to produce a total annual return which exceeds the median of a universe of investment managers with similar average asset allocation objectives and risk profiles.
3. The asset allocation will be at all times within the following guidelines:

	<u>Minimum %</u>	<u>Maximum %</u>
*Cash Equivalents	0	75
Fixed Income	25	75
Equity	25	75

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\* Cash Equivalents are defined as less than one-year maturities. Fixed Income investments can be invested in Cash Equivalents as necessary.

The primary index should represent the market as a whole, based on the Foundation's risk tolerance and investing goals. The current asset allocation is as follows, along with the corresponding indices used as benchmarks:

Overall Return	NACUBO Endowment Study
Equity I (Large-Cap)	Russell 1000 Index
Equity Q (Large-Cap)	Russell 1000 Index
Equity II (Small Cap)	Russell 2500 Index
International Fund	MSCI EAFE Index Net
Emerging Market	MSCI Emerging Markets Index Net
Fixed I & III (U.S. Fixed Income)	Lehman Aggregate Bond Index
Real Estate	FTSE NAREIT Equity REITs Index

The CSULBF Board reserves the right to adjust these limits at any time by advising the Investment Consultant in writing and allowing 60 days for implementation. The portfolio will be rebalanced when the asset classes go beyond the policy ranges or as directed by the Investment and Finance Committee. During the quarter, asset allocation percentages may go 2% outside the allocation guidelines to give adequate flexibility in the timing of rebalancing, however, rebalancing will be done at least quarterly. This rebalancing is most efficiently done by adding incoming dollars to asset classes that are below the minimum percentage and by removing spending dollars from overweighed asset classes.

4. The Foundation has a conservative investing philosophy and seeks to avoid undue risk. Prohibited investments include, but are not limited to, the following:
  - Trading in securities on margin;
  - Trading in commodity futures;
  - Investing in working interests in oil or gas wells;
  - Purchasing "puts" and "calls" and "straddles";
  - Selling and purchasing warrants and options without prior approval;
  - Selling short;
  - Derivatives.

In addition, the Foundation prohibits direct investments in companies in business of manufacturing tobacco.

5. Fixed income securities must be rated at least investment grade, with a preference toward better rated issues.
6. No more than 20% of the common stock market value is to be invested in companies with capitalization of less than \$100 million.
7. No more than 8% of the market value of the common stock sector is to be invested in the issues of one company. The holding of one firm's common stock is not to exceed 5% of that firm's total common stock outstanding.

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8. The CSULBF encourages reasonable investment in international securities to enhance diversification and prudent investment. No more than 20% of the asset allocation is to be invested in international securities. International securities include ADR's (American Depositary Receipts) and securities listed on international exchanges. These issues are to possess the same high quality characteristics of domestic securities owned in the portfolio.
  9. In addition to investing funds according to the investment guidelines, the CSULBF invests funds in companies and institutions that contribute to the enhancement of human rights, both nationally and internationally, through the support and practice of equal employment opportunities and affirmative action.
  10. The Investment Consultant is given authority to direct the purchase, sale, exchange, or conversion of any and all qualifying stocks and fixed income securities not prohibited in this statement. Unrestricted donations of securities are liquidated in an orderly fashion unless they conform to the investment model as determined by the Investment Consultant or are required to be held as part of the gift.
  11. The Investment Consultant must submit to the CSULBF a monthly report and a quarterly report detailing the current portfolio holdings, market value, annualized yield, monthly realized and unrealized gains and income from all invested assets, and other information that is customary on the Investment Consultant's reporting system.
  12. The Investment Consultant meets with the CSULBF's Board of Directors at least annually but not more than quarterly to present the above detailed information at a regularly scheduled board meeting and to review the investment policy and performance.
  13. Foundation staff and the Investment Consultant provide the Board of Directors, at their regularly scheduled meetings, quarterly investment performance and information reports.
  14. CSULBF selects at least one Investment Consultant to transact securities trading and to be the custodian responsible for investment instruments. The Investment Consultant is evaluated at least annually by CSULBF staff in accordance with the objectives and assignments set forth in this policy. This evaluation is based on investment returns compared to peers and a primary index, policy compliance, and communication with the Foundation. From time to time, on an as needed basis, CSULBF may solicit Investment Consultants via a Request For Proposal process.
  15. The CSULBF Staff with the advice and assistance of an Investment Consultant reviews the Investment Manager's activity and performance. While Investment Managers are given full and complete discretion and responsibility for making investment decisions, their performance will be judged in accordance with the objectives as stated in the Policy Statement.
  16. Investment Managers, exclusive of employees of CSULBF, are expected to supply the CSULBF annually with the Securities and Exchange Commission (SEC) form ADV Part II, the form used by investment advisors to register with the SEC. Investment Managers agree to comply with SEC regulations including an obligation

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to disclose material financial and disciplinary information to clients. Part II of the form gives information about the investment advisor and its business for the use of clients. If the Manager is a bank or trust company (institutions that do not file ADVs), an appropriate financial statement must be sent annually to CSULBF.

17. The Foundation shall annually analyze and update the background of the Investment Consultant and review information available from State or Federal securities regulators and securities industry self-regulatory organizations, such as the National Association of Securities Dealers and the North American Securities Administrators Association, about any enforcement actions against the Investment Consultant.
  
18. The CSULBF Board of Directors recognizes that various types of risk exist that impact the investment performance of an institution's portfolio. These risks include, but are not limited to: Volatility, inflation, deflation, underperforming one's peers, concentration (in a particular asset class, sector, individual company, etc.), liquidity, reputation, etc. The board understands California's Uniform Prudent Management of Institutional Funds Act (UPMIFA) that prescribes the specific investment authority, the authority of governing boards to delegate day-to-day investment management, the standards of care and prudence in the operation of a non-profit institution, and the release of donor-specified restrictions on the use or investment of endowed gifts under certain circumstances. These areas are addressed in the Investment Policy.

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## Short-Term Investment Objectives and Policy Statement for Foundation Working Capital

*Policy #9-020.1*

### Purpose:

These invested funds serve as the primary investment account(s) for all monies used to finance the annual budget or to be held for distribution or special projects. Periodic distributions are made from these investments to the Foundation's checking accounts. It is intended that these guidelines include all short-term investments managed by the Foundation.

### Investment Objectives:

- To maintain safety of principal;
- To maintain funds adequate to meet the working capital needs of the Foundation;
- To maintain a liquid position; twelve (12) month maximum investment life;
- To diversify investments for safety purposes;
- To provide for immediate transfer of cash to meet operating needs of the Foundation, either by wire or by check write;
- To produce rates of return equal to or better than the average 90 day T-Bill rates.

### Policy Statement:

1. The Foundation Executive Director or Chief Financial Officer is responsible for making daily short-term investment decisions. Any changes in the investment guidelines must first be approved for acceptability and maximum investment limit by the Foundation's Treasurer and Assistant Treasurer. CSULBF expects the assets to be invested with care, skill, prudence, and diligence under the circumstances prevailing from time to time that a prudent expert acting in a like capacity and familiar with such matters would use in the investment of funds of like characters with similar aims.
2. Approved or Accepted Instruments
  - a. Certificates of Deposit (Maximum \$100,000). These investments will be limited to federally-insured financial institutions;
  - b. Commercial Paper. These investments will generally be limited to ratings A-1 by Standard and Poor's and P-1 by Moody's;
  - c. U.S. Government and government guaranteed securities, as well as U.S. Treasury Bills;
  - d. Other money market instruments that meet the test of high quality and liquidity;
  - e. Short-term investments which are exceptions to the above may be used if determined, by mutual agreement of the Foundation's Executive Director, Chief Financial Officer, Treasurer, and Assistant Treasurer, to be acceptable and in the best interests of the Foundation.
3. CSULBF may require banks to collateralize (to protect investments by pledging specific securities as guaranteed returns in the event of bank default) any investments in their custody.

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4. The CSULBF prohibits investments which would jeopardize the safety of principal concept, non-profit status of the Foundation or in companies in the business of manufacturing tobacco products. Such investments are delineated in the Long Range Investment Objectives and Policy Statement shown on page 9.4, sub category 4.
  5. Foundation staff provide to the Board of Directors, at their regularly scheduled meetings, quarterly investment performance and information reports.
  6. The CSULBF staff monitor the management and performance of short-term investments. Performance is judged in accordance with the objectives as stated in the Policy Statement.

**Short-Term Investment Objectives and Policy Statement  
for Foundation Pooled Assets**

*Policy #9-030.1*

Purpose:

The purpose of this policy is to allow projects the option to invest in a short-term investment portfolio.

Short-Term Investment Pool (STIP) -- assets are generally invested in the money market accounts or other liquid securities. The objective of this pool is ordinary income with the ability to withdraw funds immediately.

Investment Objectives:

The short-term investment objectives are as follows:

- To maintain safety of principal;
- To maintain a liquid position;
- To diversify investments for safety purposes;
- Produce rates of return equal to or better than the average 90 day T-Bill rates.

Policy Statement:

1. The STIP is managed by the Foundation and monitored by the Investment and Finance Committee. Any changes in the investment guidelines must be approved by the Investment and Finance Committee.
2. The STIP may be invested in the Local Agency Investment Fund (LAIF) or with another money market account which is compatible with the investment policy risk constraints. LAIF is invested in the Pooled Money Investment Account managed by the State Treasurer's office with the State of California. The Pooled Money Investment Account is

invested in U.S. Treasury Bills, Bonds, Notes and Agencies; Foreign Certificates of deposits; prime rated Corporate Bonds and Commercial Paper.

3. To achieve their objectives, investors have the option to invest in the STIP. This portfolio is particularly well suited for funds which will be expended within a twelve (12) month period or if the accumulated funds are valued less then \$10,000. These

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funds typically include scholarship and endowment operating accounts which must maintain high liquidity with minimal risk of loss to principal.

4. The ordinary income will be distributed to investors based upon the receipt and reporting of earnings from the investment agency.
5. The Foundation's annual investment fee for administering STIP is .0020 or 20 (twenty) basis points. These fees and any other relevant expenses are netted against ordinary income before distribution to the investor.
6. Foundation staff will provide the Board of Directors, at their regularly scheduled meeting, quarterly investment performance and information reports.

### **Investment Objectives and Policy Statement for Foundation Long-Term Special Funds**

*Policy #9-040.1*

#### Purpose:

These accounts accommodate all assets which either by constraint or by type of investment cannot be included in the other investment statements.

#### Investment Objectives:

The objectives are to provide investment and administration of assets in accordance with the specific requirements designated at the time of acquisition. The endowment and designated assets have an indefinite time horizon literally coterminous with the endurance of the institution, in perpetuity. As such, these funds can assume a time-horizon that extends well beyond a normal market cycle, and can assume an above average level of risk. The proper time horizon for long-term funds in universities is at least ten to fifteen years.

#### Policy Statement:

1. These investments facilitate special requirements placed on assets by donors, legal agreements, or other documented means;
2. These investments may require individual management or investment segregation;
3. Investments may include but are not limited to:
  - a. Real estate
  - b. Trust deeds
  - c. Individual restricted securities
  - d. Special loan arrangements
  - e. Special equipment
  - f. Contributions or payments restricted by donor or sponsor
4. The utmost care is taken to ensure that the objectives of the client/beneficiary are taken into consideration in the investment strategy for management of these funds. Specific terms of individual trust agreements are observed. Separate reports are issued for these funds. If the donor stipulation requires the funds to be invested in the Fixed pool, the Foundation advises the Investment Consultant, in writing, of the minimum cash required to finance charitable remainder trust funds at the time of the initial funds transfer and thereafter whenever there are additions or deductions to the corpus;

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5. Investment Consultants or Foundation staff provide the Board of Directors, at their regularly scheduled meetings, quarterly investment performance and information reports;
  6. The CSULBF staff monitor the management of these investments and their performance. Performance is judged in accordance with the policy and objective statements.

**General Requirements Applicable to All Long-Term  
Investment Policy Statements**

*Policy #9-050.1*

These investment policy guidelines are to be annually reviewed by the Foundation Investment and Finance Committee and revised as needed.

Pooled Assets are assets contributed, donated or acquired by the Foundation. To the extent legally possible and in compliance with donor intent or any other restrictions, the Foundation pools investments for all funds. This practice permits broad diversification with attendant protection of principal and relative stability of revenue. Furthermore, it promotes economies of scale in administration and accounting.

Funds may be admitted or withdrawn for the pool(s) only on the evaluation dates and if the amount deposited or withdrawn will not affect the prudent management of the assets. All such deposits and withdrawals shall be in compliance with pool participation requirements. Should a Project desire to transfer or withdraw funds of material amounts, the request shall be provided in writing to the Foundation Executive Director, 45 days in advance of the desired transaction date. The Foundation Executive Director, Chief Financial Officer, Treasurer, Assistant Treasurer and outside Investment Consultant will evaluate and respond to the request in writing within 45 days. The Foundation Chief Financial Officer and the Investment Consultant will isolate the account and the account's assets so the market value of other pool participants will not be affected. When the account is isolated and the appropriate transaction takes place the account will receive the market value for leaving the pool and incur whatever losses or gains are connected with the requested transaction.

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## Long-Term Investment Options

*Policy #9-060.1*

The Foundation may utilize the following type of pools for investment of Pooled Assets:

Investment Managed Account (IMA) or Balanced Pool (Pool A) - assets are generally invested in common stocks, bonds, and treasury bills. This pool seeks current income, long-term appreciation, and preservation of capital.

The following requirements must be met in order for a project to be invested in Pool A:

- The project must be an endowment corpus or a capital improvement/fundraising holding account, AND
- The project must have long-term investment objectives and remain in the investment pool for at least 12 months.

Investment Managed Account (IMA) or Balanced Pool (Pool B) - assets are generally invested in common stocks, bonds, and treasury bills. This pool seeks current income, long-term appreciation, and preservation of capital.

The following requirements must be met in order for a project to be invested in Pool B:

- The project must have a contractual relationship with the Foundation (i.e., Charitable Remainder Trust), OR
- The project must be an endowment related scholarship (operating account) or a standard scholarship, AND
- The project must maintain \$10,000 as the required minimum for an initial investment, as well as for continuing inclusion in the pool, as determined annually.

Fixed Income Pool - assets are generally invested in preferred stocks and bonds. This fund seeks current income and preservation of principal.

The following requirements must be met in order for a project to be invested in the Fixed Pool:

- The project must have a contractual relationship with the Foundation (i.e., Charitable Remainder Trust), OR
- The project must be an endowment with an objective of generating income and distributing it to the operating project outside of the pool, AND
- The project must maintain \$50,000 as the required minimum for an initial investment, as well as for continuing inclusion in the pool, as determined annually.

## Income Recognition and Spending Policy

*Policy #9-070.1*

### General:

Investment of assets generates returns which include both ordinary income and appreciation, both realized and unrealized. Recognizing that purchasing power must be protected from erosion attributable to inflation, the amount of return allocated to current needs must be balanced with reinvestment required to meet future needs.

The Foundation general fund will participate in any available investment pool to the extent necessary to efficiently manage the cash flow requirements and investment pool needs.

### Accounting and Reporting:

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CSULBF recognizes income and appreciation in its accounting system in accordance with generally accepted accounting principles. Ordinary income, realized and unrealized gains (losses), and applicable fees are calculated based on each project's market value.

Ordinary income earned, for unrestricted purposes, is credited to unrestricted current funds revenues. Ordinary income earned for restricted purposes is credited to the specific fund income accounts or to fund balances as specified by the terms of the gift instrument or project director. Ordinary income is defined as the yield from investments and includes dividends, interest, net rents, and royalties. The ordinary income earned is generally distributed to projects monthly or quarterly depending on the terms of the investment agency and the prudent return concept.

Capital gains and losses are accounted for in the project as additions to and deductions from the project's balance. Capital gain or loss is the net appreciation (increase) or depreciation (decrease) in market value of financial instruments over original cost. Realized capital gain or loss is the appreciation or depreciation established by a sale. Unrealized capital gain or loss is the appreciation or depreciation established by a market. Distribution (if any) of the realized appreciation/depreciation and Fixed Pool is determined annually or more frequently, if necessary in arrears, by Foundation staff in concert with the Investment and Finance Committee. All realized and unrealized gains (losses) and applicable fees are distributed to projects invested in Pool B monthly. The difference between the market value and the book value for each project in Pool B consists of the applicable unrealized gains (losses).

CSULBF's investment pool(s) permit equitable distribution of earnings and assignment of market values to the individual projects invested in the pool. Earnings are distributed based on the "unit" method of accounting or percentage based. The unit method provides for the assignment of arbitrary unit values to participants in the pool. Each participant is considered to have the number of units or a percentage of the pool directly proportional to the dollar value of the investment at the time of inauguration. New investments are in the form of cash only. Assets other than cash are held separately.

Consistent with Foundation Policy 9-050.1 the participant leaving the pool will receive market value per disposed share and will incur whatever gains or losses are connected with the transaction.

Fixed Pool:

The pool assets are valued monthly and a new unit value is determined by dividing the new market value by total number of units in the pool. The monthly value is used to determine the number of units assigned to a new project as it enters the pool or to reduce units of a project as it leaves the pool. Should a project close its account and withdraw from the pool, the account will leave at market value.

Earnings are distributed to pool participants on the basis of number of units held. Total investment earnings are divided by total number of units in the fund(s) to determine earnings per share. Ordinary income is distributed to pool participants monthly. If applicable, a prudent amount of realized capital gains (losses) may be distributed, provided that the purchasing power of the funds is protected.

Three holding accounts are used to record realized gains/losses, unrealized gains/losses, and fees. These accounts are charged or credited upon withdrawal of participating projects from the pool. The realized gains/losses and fee holding accounts are used to transfer distributions of appreciation(depreciation) to projects.

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A portion of realized capital gains (losses), net of fees may be distributed annually provided that the Investment and Finance Committee approves such action.

#### Pool A

The Foundation will distribute a pre-authorized rate for program expenditures on an annual basis, based on the July 1<sup>st</sup> market value (See Appendix A). This distribution rate is based on an investment rate that protects the future spending power of the endowments and is evaluated annually.

Endowment projects eligible to participate in Pool A do not allow any spending of the corpus.

#### Pool B:

Provided pool participants meet established guidelines or have a contractual relationship with the Foundation (see Section 9-060.1).

All per share ordinary income, realized and unrealized capital gains (losses) earned in Pool B shall be recorded in Pool B participants' general ledger accounts monthly in accordance with the number of shares they own. Participants' required cash withdrawals or specified payouts provided for in their contract/agreement with the Foundation shall be paid from these general ledger accounts. These general ledger accounts will fluctuate up or down based on the market value. Participants in other Foundation pools have the option to transfer their funds to Pool B provided they conform to Pool B established guidelines for participation.

Projects invested in Pool B are allowed to spend their book or market value, whichever is the lesser. The difference between the market and the book values consists of the applicable unrealized gains (losses).

On an annual basis, each Pool B account shall be reviewed to determine whether it continues to meet established guidelines for participation in this Pool.

#### Investment Fees:

Investment fees for Pool B are posted directly to the projects. Expenses include, but are not limited to, fees for Investment Consultant Services and brokerage fees, which average approximately one-half percent (.5%) annually on the fair market value of the pool. The Foundation's annual administrative fee is one percent (1%) calculated quarterly on the fair market value of the pool.

Investment fees for the Fixed Income Pool are netted against the ordinary income of the pool. Expenses include, but are not limited to, fees for Investment Consultant Services, brokerage fees, and Foundation administration fees. The Foundation's annual administrative fee is one half (1/2) of one percent (1%) calculated on the beginning monthly fair market value of the pool.

#### Review:

These income recognition and spending policy guidelines are to be annually reviewed by the Investment and Finance Committee and revised as needed.

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This investment policy will be submitted to the CSULBF's Board of Directors periodically for review and recommended changes. Review times will be determined and at a minimum shall be once every three (3) years.

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APPENDIX A



OFFICE OF THE PRESIDENT

CALIFORNIA STATE UNIVERSITY, LONG BEACH  
1250 BELFLOWER BOULEVARD  
LONG BEACH, CA 90840-0115

MEMORANDUM

562/985-4121

April 4, 2006

To: Foundation Project Directors  
From: F. King Alexander, President *F. King Alexander*  
Re: Foundation Spending Policy on Investments

I am pleased to announce a change in the spending policy for Investment Pool A which was recently approved by the CSU Long Beach Foundation Board of Directors. The Board's Finance and Investment Committee examined the Foundation's past investment performance and reviewed the practices of other higher education institutions and has determined that the Foundation will distribute 4.5% for program expenditures on an annual basis. This predictable distribution will be in lieu of ordinary income plus the traditional "ad hoc" annual distribution.

This distribution is based on the assumption that Investment Pool A will earn 8.5% (net of fees) on a perennial basis. However, to protect the future spending power of the endowments, we have allowed for inflation as measured by the higher education cost index, which averaged 4% over the past 3 years. This retention for inflation remains in the corpus. The remaining 4.5% will be distributed annually, based on the July 1<sup>st</sup> market value. For Fiscal Year 2007 the 4.5% distribution will be made August 1, 2006.

Also, in this final transition year before the new policy goes into effect, the Board approved an additional two percent distribution to Endowment and Operating Accounts invested in Investment Pool A for fiscal year 2006. The two percent distribution will be calculated on the beginning fiscal year balance and be allocated to projects on May 1, 2006. This distribution is in addition to the ordinary income that you have received throughout this fiscal year.

If you have any questions please contact Joseph Latter or Bob Behm.

c: Finance and Investment Committee