

SECTION: POLICY STATEMENT – INVESTMENT

SUBJECT: ENDOWMENT INVESTMENT POLICY

PURPOSE: To provide overall policy direction to Investment Committee and Management in the administration of the Foundation's Endowment Fund.

RESPONSIBLE EXECUTIVE: Treasurer

RESPONSIBLE DEPARTMENT: University Development Operations

UPDATED: November 7, 2015

FIRST EFFECTIVE DATE: January 1, 2007

LAST REVIEW: May 5, 2018

NEXT SCHEDULED REVIEW: May 5, 2023

ENDOWMENT FUND INVESTMENT GOALS, OBJECTIVES AND POLICIES

I. GOALS AND OBJECTIVES

- A. **Fiduciary Objectives.** Underlying the Fund's investment goals is its intent to maintain the purchasing power of endowment income and to protect the real value of endowment principal in perpetuity. The endowment will be administered in accordance with the Uniform Prudent Management of Institutional Funds Act as adopted by the State of California.
- B. **Investment Return Objectives.** Provide a total return, net of fees, of 5.00% after the general inflation rate as measured by the U.S. Department of Labor Consumer Price Index – Western Region. The return should be reasonably stable and predictable and will be measured in rolling ten year periods. Total return can include dividends, interest and both realized and unrealized market value changes. 5.00% is the sum of the current spending rate (4.00%) plus the estimated higher education inflation premium (1.0%) over the general inflation rate. The Investment mix of equities and fixed income securities shall be consistent with the target return and stability objectives. It is acknowledged that these objectives will require a substantial investment in equities. The Board's standing Investment Committee will periodically review these assumptions and objectives; if deemed necessary, the Committee will recommend changes to the Board.
- C. **Spending Objectives.** Follow a spending rule (payout rate) that provides a stable, predictable level of spending for the endowed purposes, and for a rate of growth in the endowment that approximates the rate of inflation.

II. ALLOWABLE INVESTMENTS

General policy shall be to diversify investments among both equity and fixed-income securities. Allowable investments will be:

- A. Equity Investments. The principal category of equity investments will be common stocks. Stock investments should be diversified by industry, capitalization size, relative value and nation of origin. Accordingly, the Investment Committee will establish, document and make available for review by the Board the appropriate allocations and limits within these diversifying categories.
- B. Fixed Income Investments. The principal category of fixed income investments will be domestic, high-quality intermediate or long-term corporate and Treasury bonds. Investments in professionally managed below-grade instruments or international instruments may be included subject to limitations adopted by the Investment Committee.

Short-term, cash-equivalent investments are appropriate as a depository for income distributions or as needed for temporary placement of funds directed for later investment to longer-term capital markets.

- C. Other Investments. Other investments such as individual real estate, private distressed securities, venture capital, domestic and foreign private equity, directional and non-directional hedge funds or commodities (including energy and natural resources) may be utilized in the endowment portfolio if authorized by the Investment Committee after appropriate review and analysis of the role of the investment in the portfolio and a determination that the expected risk and return profile are in alignment with overall portfolio objectives and policies. It is expected that such other investments will be made utilizing diversified pools of assets.
- D. Prohibited Investments. The fund may not purchase investments in letter stock or individual commodities other than as a broad group of commodities might exist in a diversified fund which has been approved by the Investment Committee. In addition, the fund may not engage in short sales or purchases on margin other than as they might exist in a diversified fund which has been approved by the Investment Committee. Gifts of prohibited investments will be liquidated as soon as feasible.

III. SPENDING RULE

- A. The Foundation establishes a spending rule for all endowments that is applied annually against the average of an endowment's market value on the last day of each of the twelve quarters (or such lesser number of quarters the endowment has been in existence) (the "trailing quarterly average") ending on the December 31st immediately preceding the year

in which an endowment payout is to be made (the “valuation date”). The Investment Committee will discuss and propose a spending rule during each November’s Committee meeting. The proposal will be reviewed by the Executive Committee, and put forward for ratification during the following February’s full Foundation meeting.

- B. For purposes of the spending rule, a spending reserve will be established for each endowment. Spending reserves will consist of the endowment’s retained dividends, interest, capital appreciation and depreciation and, if applicable, transfers in of funds already held by the University.
- C. Endowment payouts under the spending rule are determined as follows:
 - 1. 4.00% of the trailing quarterly average on the valuation date if there are sufficient funds to pay this rate held within the endowment’s spending reserve;
 - 2. An amount equal to the spending reserve if the spending reserve on the valuation date is less than 4.00% and greater than 2% of the endowment’s trailing quarterly average, or
 - 3. An amount equal to 2% of the trailing quarterly average on the valuation date.
- D. To the extent that the current year’s total return is insufficient to meet the announced payout, endowment principal may be drawn upon. Principal payouts pursuant to Section C. 1 and 2 will be charged against spending reserve. Principal payouts pursuant to Section C. 3 will be charged first against any spending reserve and then against principal recorded as the historic dollar value of the endowment.
- E. With management oversight, payouts for University programs over \$20,000 will generally be made over four quarters starting with the quarter ending the fiscal year during which the payout calculations were made. Payments for University programs with payouts less than \$20,000 will generally be made at the end of the academic year.
- F. Payouts for endowments reaching threshold in the current fiscal year will be based on the current spending rate times the average market value of the last day of the preceding calendar year.
- G. Deans or other designated endowment administrators may waive for good cause all or part of an annual payout from endowment spending reserve and may waive in their sole discretion any payout made pursuant to Section C. 3 above.

IV. ADMINISTRATION

- A. Custodial Arrangements. All marketable securities will be held by a

bonded, notable and nationally recognized operating custodian. The terms and conditions of this custodial relationship shall be detailed in a written agreement.

- B. Process. It is the charge of the Investment Committee and staff to implement the policies set forth above. The Investment Committee shall have discretion to establish and document specific guidelines necessary to meet the endowment pool's goals, objectives and policies. The Investment Committee may utilize investment consultants and managers to achieve their goals.

The Investment Committee will make its documented guidelines available to the Board of Directors and will periodically advise the Board of any change(s) to the document.

V. REVIEW

- A. The Investment Committee of the Foundation Board of Directors will review this policy in its entirety every five years from the most recent updated date to determine its effectiveness and appropriateness. The endowment payout rate under Section III of this policy shall be evaluated annually. The policy may be evaluated before that time as necessary to reflect substantial organizational, financial, or physical change(s) at the Foundation or any change required by law or by other governing policy.

VI. REFERENCES AND RELATED POLICY

- A. CSU Board of Trustee Resolution RFIN 7-78-6 Social Responsibility and Investments
- B. CPF Policy 411-Socially Responsible Investing
- C. CPF Policy 412-General Investment Policy and its Guidelines
- D. CPF Policy 413 Special Endowment Funds
- E. CPF Policy 422 Facilities Fund Investment
- F. California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") (Cal. Probate Code §18506 et seq.).

Document Chronology: May 2018 updates for formatting and added review schedule, revised for improved clarity.