



## POLICIES AND PROCEDURES

### CORPORATE POLICY

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#### **A. Policy**

This Statement of Investment Policy is intended to provide guidelines for the prudent investment of the Foundation's (see Scope, Section III) general investment portfolio and outline the policies for maximizing the effectiveness and efficiency of the Cal Poly Pomona Foundation, Inc. ("Foundation") investment management program. The goal of this General Investment Policy is twofold, one is to enhance the economic status of the Foundation while preserving its capital resources; the second is to establish a clear understanding between the Foundation and their Investment Manager(s) regarding investment objectives and policy guidelines. The Foundation's General Investment Policy is to be governed by Sections 5210 and 5231 of the California Corporations Code, and California Probate Code Section 18500 et seq. (Uniform Prudent Management of Institutional Funds Act).



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#### B. Objective

The Foundation's investment management program is designed to monitor and forecast expenditures and revenues, thus enabling the Foundation to invest its asset portfolio to the fullest extent possible. The Foundation attempts to obtain the highest yield available, while investments meet the criteria established for safety (preservation of capital), liquidity and yield.

##### a. SAFETY

Asset portfolio safety is the foremost objective of the Foundation. Each investment transaction shall seek to ensure portfolio losses are avoided, whether from securities default, rating downgrades, broker/dealer defaults, or erosion of market value. Cal Poly Pomona Foundation, Inc. shall seek the preservation of its portfolio by managing two types of risk: credit risk and market risk.

1. Credit Risk - is the risk of loss due to failure of the issuer and is managed by proper due diligence prior to investing and on an ongoing basis, and diversifying the general investment portfolio so the failure of any one issuer would not materially affect the cash flow of the Foundation.
2. Market Risk - is the risk of investment value fluctuations due to changes in the general level of interest rates or the issuer's individual or industry sector performance. This risk shall be managed by limiting the average maturity of the fixed income portion of the Foundation's general investment portfolio to five years or less and the maximum maturity of any one security to ten years, with the exception of Mortgage-Backed Securities (MBS), the maximum maturity of which shall be limited to thirty years. Market risk shall also be managed by structuring the portfolio so fixed income securities maturing match cash outflows, eliminating the need to sell securities prior to their maturity. It is recognized that within a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall return on the investment.

##### b. RETURN ON INVESTMENT

The Foundation's general investment portfolio shall be designed to attain or exceed a target rate of return throughout economic cycles consistent with risk limitations and prudent investment principles. The target rate of return shall be measured in



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“absolute”, “relative” and “comparative” terms as determined by the Finance & Investment Committee. See Return Objective Section IX of this General Investment Policy for further details.

#### c. LIQUIDITY

Foundation's general investment portfolio will remain satisfactorily liquid to enable the Foundation to meet anticipated operating and cash flow requirements. Historical and cash flow needs are to be analyzed continuously.

#### C. Scope

The funds identified in this section and entrusted to the Foundation will be pooled in an actively managed portfolio. The Foundation shall oversee management of the portfolio within the content of the "Uniform Prudent Management Investment Funds Act of 2008" section 18503 (b) which states:

"...each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

" This policy is applicable, but not limited to all funds listed below:

- General Fund
- Sponsored Programs Fund
- Designated Fund
- Enterprise Fund
- Agricultural-Aid-To-Instruction Fund
- Foundation Program Fund
- Continuing Education Fund
- Real Estate Fund

#### D. Delegation and Grants of Authority

Responsibility for the investment program has been delegated by the Foundation Board of Directors to the Finance & Investment Committee. The Finance & Investment Committee may outsource the portfolio management of the assets to the Investment Advisor, in concert with the rules and parameters included in this document and described below. A report on portfolio performance will be provided to the full Foundation Board on a quarterly basis at a regularly



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scheduled Board meeting.

#### a. THE INVESTMENT ADVISOR

The Investment Advisor will be a discretionary advisor to the Foundation Board of Directors. 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 General Investment Policy.

The Investment Advisor may assist the Foundation Board of Directors in establishing investment policies, objectives and guidelines as is set forth in this General Investment 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 General Investment Policy.

The Investment Advisor represents that with respect to the performance of its duties under this policy, 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 General Investment Policy, including asset allocation guidelines as illustrated in this policy;
- executing investment portfolio management, asset allocation, rebalancing and other day-to-day responsibilities on a discretionary basis within the guidelines of this General Investment Policy;
- providing 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.



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#### b. THE INVESTMENT MANAGERS

The Investment Managers have discretion to make all investment decisions for the assets placed under its jurisdiction by the Investment Advisor within the parameters of this policy.

#### E. **Ethics and Conflict of Interest**

All Foundation Board members and investment personnel including family members shall refrain from personal business activity which could create a conflict in fact or in appearance with proper execution of the investment program, or which could impair their ability to execute impartial investment decisions. All such personnel shall disclose to the Executive Director any material financial interests in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Foundation's general investment portfolio. The Executive Director shall report in writing to the full Board at least annually all issues, which could influence the performance of the Foundation's investments.

#### F. **Criteria for Selection of Investment Managers**

In order to retain investment management organizations that have demonstrated competence in executing one or more investment strategies consistent with the established policy, the following criteria will be applied in retaining existing firms and selecting new investment managers:

- A. Demonstrated performance in one or more of the asset categories defined in section X.
- B. A sound research program;
- C. A disciplined, consistent and measurable approach to the construction and monitoring of portfolios;
- D. Established investment control procedures with operating management information to assure regular review of the portfolio manager's decisions;
- E. Ability to trade at the competitive rates and consistently secure best price execution;
- F. Primary business purpose will be investment management and will have sufficient experience with educational investment assets;
- G. Demonstrated ability to manage its affairs in a businesslike manner and with a high degree of financial stability;
- H. An experienced, highly competent professional staff, recognized as such within the industry. Continuity of such personnel will be considered;



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- I. No conflict of interest with the policy, objectives, or organization of the investment portfolio, nor any conflict which would interfere with prudent management of the portfolio's assets;
- J. Capability to report accounting and performance data in a timely manner;
- K. Competitive fee structure.

Additionally, in light of the social and environmental challenges of our time, fiduciary actions must include prudent management practices with principles of environmental and social stewardship, concern for community, and corporate accountability to stakeholders alike. Therefore, the Foundation actively seeks investments, which support and recognize the central position of global and holistic sustainability. These investments may be focused on specific themes or offer a broader recognition of the long-term global macroeconomic and environmental drivers within sustainable business ventures. Thus, consideration for environmental, social, and governance ("ESG") factors shall be integrated into the investment decision process.

#### **G. Performance Evaluation**

Performance will be reviewed for purposes of determining adherence to appropriate risk levels, and for comparison of returns to the established objectives and specific goals.

It is recognized that investment results can fluctuate through market cycles. Achievement of total rate of return within the risk levels identified will be the primary basis upon which to evaluate manager performance. Each manager's portfolio will be monitored and reported quarterly to the Finance & Investment Committee. A comprehensive quarterly report accepted by the Finance & Investment Committee will be presented to the full Board of Directors.

#### **H. Return Objective**

The purpose of the Foundation's general investment portfolio is to support the University and its mission over the long term. Accordingly, the purpose of this statement is to establish a written procedure for the investment of the Foundation's general investment portfolio to ensure that the future growth of the portfolio is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the portfolio. This statement will establish appropriate risk and return objectives in light of the fund's risk tolerance and investment time horizon. These objectives, as well as asset allocation guidelines and suitable investments are outlined below.



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The return objectives of the Foundation's general investment portfolio shall be viewed from three perspectives as follows: **Absolute** - Real (i.e., net of inflation) rate-of-return **Relative** - Time-weighted rates of return versus capital market indices; and **Comparative** - Performance of the Investment Manager(s) as compared to a universe of similar investment funds.

1. The **Absolute Objective** of the Foundation's general investment portfolio is to seek an average total annual return of 3.5% plus the percentage change in the greater Higher Education Price Index (HEPI). This objective shall be measured over rolling one, three, five- and ten-year time periods. The intent of this objective is to measure, over time, the return on the portfolio as measured in inflation adjusted terms.
2. The **Relative Objective** of the Foundation's general investment portfolio is to seek competitive investment performance versus appropriate capital market benchmarks or indices illustrated below.

Based on the asset allocation ranges outlined in section X, the Investment Policy Benchmark that should be used in evaluating the performance of the Client's assets is:

<b>Global Equities MSCI All Country World (Net)</b>	<b>60%</b>
<b>US Fixed Income Barclays Cap US Aggregate Bond Idx TR</b>	<b>20%</b>
<b>Global Alternatives HFRX Global Hedge (USD)</b>	<b>20%</b>

3. The Comparative performance objective of the Foundation's general investment portfolio is to achieve a total rate of return that is above the median performance of universe of similar portfolios. The Foundation's assets have a long-term, indefinite time horizon that runs concurrent with the endurance of the University. 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 return volatility (as measured by the standard deviation of annual returns) in exchange for an expected higher level of returns over the longer time horizon. It is expected, however, that both professional management and sufficient portfolio diversification will smooth volatility and help to assure a reasonable consistency of return.

#### I. Target Asset Allocation

To achieve its return objectives, the Foundation's general investment portfolio shall be allocated among a number of asset classes. These asset classes may include domestic and foreign equity, domestic and international fixed income, cash, real assets, real estate and alternative investments. The purpose of allocating among asset classes is to ensure the proper



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level of diversification within the Foundation’s general investment portfolio. It is understood that assets may temporarily be placed in a cash equivalent account prior to investing in longer term instruments. The following Target Asset Mix Table defines the Foundation’s general investment portfolio target asset allocation.

**Target Asset Mix Table**

<u>Asset Class</u>	<u>Range</u>	<u>Representative Index</u>
Equities Domestic Foreign (Developed and Emerging)	35-65%	Russell 3000 Foreign (Developed and Emerging) MSCI All Cap World X US Index
Fixed Income	15-45%	Barclays Intermediate Gov’t/Credit
Cash Equivalents	0-20%	90-Day Treasury Rate
Real Assets	0-10%	Comparable Index
Real Estate	0-10%	Comparable REIT Index
Alternative Investments	10-30%	Authorized Investment Vehicle

**No more than 5 percent of the asset class may be invested in any single equity or fixed income issuer, excluding U.S. Treasury Securities, U. S. Government Agency Securities and Mortgage Back Securities, at time of purchase.**

**Exposure to any industry sector shall generally be limited to 20 percent of the asset class, excluding U.S. Treasury Securities, U.S. Government Agency Securities and Mortgage Back Securities, at time of purchase. This sector limitation is applicable to both debt and equity.**

All limitations expressed on a market value basis.

The portfolio may include exchange-traded funds (ETFs) or commingled vehicles with compositions outside of the control of the Investment Advisor. In those cases, the Investment Advisor will exercise its best efforts to utilize funds with investment objectives that are generally consistent with guidelines found in this policy.

The General Investment Policy shall be to diversify investments among asset classes so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Investments in international issues shall be U.S. dollar denominated or appropriately hedged



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so as to eliminate fluctuations in value attributable to changes in currency exchange rates.

#### **ACCEPTABLE INSTRUMENTS**

1. Money Market Funds
2. Certificates of Deposit
3. U.S. Government or Government Agency Obligations,
4. International Bonds
5. Mortgage Backed Securities – Agency
6. Mortgage Backed Securities – Non-Agency
7. Corporate Debt
8. Repurchase Agreements
9. Mutual Funds (Debt or Equity)
10. Real Estate
11. Real Assets
12. Alternative Investments
13. Single Equity Securities

With respect to the above listed investments, the following limitations will apply:

- Money Market Funds including the Local Agency Investment Fund (LAIF). No more than 5% of the market value of the total portfolio may be invested in any fund. All funds utilized must be pre-approved by the Finance & Investment Committee.
- Certificates of Deposit. Investments in certificates of deposit in any insured bank or savings institution shall be limited to the FDIC insurance maximum.
- U.S. Government or U.S. Government Agency Obligations. There is no limitation within the asset class as to the percentage of the portfolio, which can be invested in U.S. Government obligations.
- International Bonds. These are debt securities issued by non-U.S. governments and corporations.
- Mortgage Backed Securities all investments in MBS shall be U.S. Agency guaranteed (e.g. GNMA, FNMA, FHLMAC). No more than 5% of the total market value of the asset class may be invested in any single security and no more than 20% of the total market value of the asset class may be invested in MBS issued by any U.S. Agency.
- Mortgage Backed Securities – Non-Agency. These are issued by private institutions (not by government or quasi-government agencies); their underlying collateral generally consists of mortgages which do not conform to the requirements for inclusion in



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mortgage-backed securities issued by agencies such as Ginnie Mae, Fannie Mae or Freddie Mac. Types of non-agency MBS include: Prime, Alternative-A, Option ARMs & Subprime.

- Corporate Debt, including Commercial Paper. No more than 5% of the market value of the asset class may be invested in debt issued by any domestic or international corporation. Corporate debt must carry an investment grade rating by at least two of three rating agencies (i.e. Moody, S&P and Fitch) at time of purchase. In the case of securities where the rating is split between investment grade and non-investment grade, the higher rating shall define the quality of the security. Rating downgrades subsequent to purchase shall be managed on a case-by-case basis. This policy authorizes investment of up to 10% of the market value of the asset class in non-investment grade debt provided that all such investments shall be made through mutual funds so as to diversify risk.
- Repurchase Agreements. The Foundation may invest in repurchase agreements with banks and Primary Dealers in U.S. Government Securities with which the Foundation has entered into a Public Securities Association (PSA) repurchase contract, which specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 30 days. The market value of securities used as collateral for repurchase agreements shall be monitored daily by the Foundation's staff and will not be allowed to fall below 102% of the value of the repurchase agreement. Repurchase agreements cannot exceed 20 percent of the total market value of the asset class.
- Mutual Funds. For purposes of this Policy, mutual funds shall be considered and treated as investments in common and preferred stocks and therefore subject to the same limitations.
- Real Estate. Investments in real estate shall be limited to securities (e.g. REITs) for which there is a ready and active market.
- Real Assets. Include investments in public/private real estate, natural resources, commodities, infrastructure, timber and inflation-linked securities (TIPS).
- Alternative Investments that meet the "mission of the University" for the benefit of the University and are authorized by Foundation Board resolution and supported by appropriate and documented "due diligence" analysis. The value of these alternative investments shall be benchmarked against an authorized investment vehicle of the Foundation. The target value of these investments will be 10% to 15% and the total



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value shall not exceed 25% of the portfolio. The alternative investments will diversify and reduce volatility of the portfolio.

- The Foundation will not directly invest in fossil fuel companies or buy carbon in proven oil, gas and coal reserves, although it may hold some fossil fuel stocks in commingled funds or mutual funds.

#### **J. Rebalancing**

The Investment Advisor on an ongoing basis and in accordance with market fluctuations, shall rebalance the investment portfolio so it remains within the ranges of asset allocations, and the planned distribution among investment managers.

Formal asset allocation studies will be conducted at least every two (2) years, with evaluations of the validity of the adopted asset allocation.

#### **K. Safekeeping and Custody Agreements**

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the Foundation shall be kept in safekeeping by a third-party brokerage firm or bank custodial department, acting as agent for the Foundation under the terms of a custody agreement.

#### **L. Internal Controls**

The CFO has developed a system of internal investment and accounting controls while establishing a segregation of responsibilities of investment functions to ensure an adequate system of internal controls over the investment function.

#### **M. Investment Policy Review**

This General Investment Policy shall be reviewed by the Finance & Investment Committee at least annually to ensure consistency with the overall objectives of the preservation of capital, liquidity and return of the investment portfolio. The General Investment Policy shall also be reviewed to ensure its compliance and relevance to the current law, financial and economic trends, and to meet the cash flow requirements of the Foundation. Investments are reviewed



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monthly by the Foundation staff during the reconciliation process of investment transactions to the third-party statements and the proof of cash process. The general investment portfolio is audited annually by the Foundation's independent accountants for internal controls and balances.