

# **CSUB FOUNDATION**

## **Investment Policy Statement**

**Adopted: April 16, 2018**

**Revised by Finance Committee: November 20, 2024**

**Approved by Board: December 4, 2024**

Table of Contents

<b>INVESTMENT POLICY STATEMENT – EXECUTIVE SUMMARY</b> .....	<b>3</b>
<b>SCOPE OF THIS INVESTMENT POLICY STATEMENT</b> .....	<b>3</b>
<b>PURPOSE OF THIS INVESTMENT POLICY STATEMENT</b> .....	<b>4</b>
<b>DEFINITIONS</b> .....	<b>4</b>
<b>UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT</b> .....	<b>5</b>
<b>DELEGATION OF AUTHORITY</b> .....	<b>7</b>
<b>ASSIGNMENT OF RESPONSIBILITY</b> .....	<b>7</b>
<b>TIME HORIZON</b> .....	<b>9</b>
<b>INVESTMENT OBJECTIVES</b> .....	<b>9</b>
<b>SPEND POLICY</b> .....	<b>10</b>
<b>INVESTMENT POLICY</b> .....	<b>11</b>
<b>INVESTMENT GUIDELINES</b> .....	<b>12</b>
<b>ASSET ALLOCATION GUIDELINES</b> .....	<b>13</b>
<b>SELECTION OF INVESTMENT MANAGERS</b> .....	<b>15</b>
<b>SOCIALLY RESPONSIBLE INVESTING</b> .....	<b>16</b>
<b>INVESTMENT PERFORMANCE REVIEW AND EVALUATION</b> .....	<b>16</b>
<b>MANAGEMENT COST, FEES AND PROFESSIONAL COMPENSATION</b> .....	<b>17</b>
<b>INVESTMENT POLICY REVIEW</b> .....	<b>17</b>

## INVESTMENT POLICY STATEMENT – EXECUTIVE SUMMARY

**Type of Fund:** Investment Assets (Endowment Funds)

**Time Horizon:** Perpetuity

**Investment Horizon:** Full business cycle

**Target Real Return:** Consumer Price Index plus 5.00%, net of all investment asset expenses.

**Time Horizon Return:** Consumer Price Index plus 5.00%, net of all investment asset expenses.

**Spend Policy:** Spend Amount = 4.00%  
CSUB Foundation Management Fee = 1.00%

**Spend Formula:** Three-year rolling-average of fiscal year end market valuations.

**Allocation Guidelines:**

<i>Endowment Funds</i>				
Asset Class	Min%	Target%	Max%	Benchmark
Public Equity	40%	55%	70%	MSCI All Country World Index
Private Equity	0%	10%	20%	Cambridge Private Equity Index
Fixed Income	10%	20%	30%	Bloomberg Barclays Aggregate Bond Index
Hedge Funds	0%	10%	20%	HFRX Global Hedge Fund Index
Real Assets	0%	5%	10%	NCREIF ODCE Index
Cash/Cash Equivalents	0%	0%	5%	Citi-90-Day Treasury Bill TR
<b>Total</b>		<b>100%</b>		

## **SCOPE OF THIS INVESTMENT POLICY STATEMENT**

This investment policy statement reflects the policy, objectives and constraints of the CSUB Foundation investment assets to include:

- Endowment Funds

## **PURPOSE OF THIS INVESTMENT POLICY STATEMENT**

This investment policy statement is set forth by the CSUB Foundation in order to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding of the goals and objectives for the investment assets.
- Offer guidance and limitations regarding the investment of assets.
- Establish a basis for evaluating investment results.
- Manage the investment assets according to prudent standards.
- Establish the relevant investment horizon for which the investment assets will be managed.

In general, the purpose of this investment policy statement is to outline a philosophy and attitude, which will guide the management of the investment assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

## **DEFINITIONS**

This investment policy statement definitions include:

- “Bloomberg Barclays Aggregate Bond Index” is the AGG bond index, formally known as the Bloomberg Barclays Aggregate Bond Index, which includes government securities, mortgage-backed securities, asset-backed securities, and corporate securities to simulate the universe of bonds in the market. AGG has an investible index ETF managed by iShares with the ticker symbol “AGG”.
- “Board” shall mean the Board of Directors of the CSUB Foundation.
- “Cambridge Private Equity Index” is an index provide by Cambridge Associates on their United Stated Private Equity statistics based on data compiled from more than 1,500 institutional-quality buyout, growth equity, private equity energy, and subordinated capital funds.
- “ETF” shall mean an exchange-traded fund (ETF), a type of security that involves a collection of securities, such as stocks, that often tracks an underlying index, such as a stock index.
- “Fiduciary” shall mean any individual or group of individuals who exercise discretionary authority or control over the management of a Fund or any authority or control over management, disposition or administration of the investment assets.
- “Finance Committee” shall mean the Finance Committee of the CSUB Foundation.
- “Fund” shall mean a portion of the investment assets of the CSUB Foundation.
- “HFRX Global Hedge Fund Index” is an index comprised of funds representing all main hedge fund strategies. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry.

- “Investment Horizon” shall be the time period over which the investment objectives, as set forth in this investment policy statement, are expected to be met.
- “Investment Manager” shall mean any individual, or group of individuals, employed to manage a Fund. Any Investment Manager is selected by the OCIO.
- “MSCI All Country World Index” is the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI), a stock index designed to track a broad global equity-market performance. The index is comprised of about 3,000 stocks from 23 developed countries and 26 emerging markets including 56% United States, 7% Japan, and 5% China. MSCI ACWI has an investible index ETF managed by iShares with the ticker symbol “ACWI”.
- “NCREIF OEDCE Index” is the National Council of Real Estate Investment Fiduciaries (NCREIF) Open End Diversified Core Equity (ODCE), an index comprised of funds representing investments returns (gross of fees) of the largest private real estate funds pursuing a core investment strategy which is typically characterized by low risk, low leverage (less than 40%), and stable properties diversified across the United States.
- “OCIO” shall mean the Outsourced Chief Investment Officer, which is any individual(s) or organization(s) employed to provide outsourced chief investment officer advisory services, including managing the assigned investment assets in accordance with this investment policy statement, advice on investment objectives and/or asset allocation, manager search and selection, and performance monitoring. The OCIO shall be recommended by the Finance Committee, approved by the Board, and report to the CSUB Foundation Chief Financial Officer as a discretionary advisor.
- “Securities” shall refer to the marketable investment securities, which are defined as acceptable in this investment policy statement.
- “Treasury Bills” is a short-term United States government debt obligation backed by the Treasury Department with a maturity of one-year or less and typically sold in denominations of \$1,000.

## **UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT**

It is the intent of the Board to have the Finance Committee apply the investment standards of the Uniform Prudent Management of Institutional Funds Act as they apply to both Donor Restricted Funds as well as Unrestricted Institutional Funds in the management of the investment assets.

### Donor Restricted Funds

Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of a donor restricted fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the donor restricted fund is established. Unless stated otherwise in the gift instrument, the assets in the donor restricted fund are donor-restricted until appropriated for expenditure by the institution. In deciding to spend or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, all of the following factors:

- The duration and preservation of the donor restricted fund.
- The purposes of the institution and the donor restricted fund.
- General economic conditions.

- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investment assets.
- Other resources of the institution.
- The investment policy statement of the institution.

### Unrestricted Institutional Funds

In managing and investing unrestricted institutional funds, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, all of the following factors:

- The duration and preservation of the unrestricted institutional fund.
- The purpose of the institution and the unrestricted institutional fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investment assets.
- Other resources of the institution.
- The investment policy statement of the institution.
- 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 assets.
- The needs of the institution including the requirement to make distributions and to preserve capital.
- An asset's special relationship or special value, if any, to the charitable purposes of the institution.
- Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the institution'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 institution.
- Except as otherwise provided by law other than this part, an institution may invest in any kind of property or type of investment consistent with this investment policy statement.
- An institution shall diversify the investment assets unless the institution reasonably determines that, because of special circumstances, the purposes of the investment assets are better served without diversification.
- Within a reasonable time after receiving property, an 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 investment assets 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 investment policy statement.
- 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 a Fund as deemed appropriate.

## **DELEGATION OF AUTHORITY**

The Board is the governing body of the CSUB Foundation. The Board is a Fiduciary and is ultimately responsible for directing and monitoring the management of investment assets. As such, the Board is authorized to delegate certain responsibilities to professional experts (who also have a Fiduciary responsibility) in various fields. These include, but are not limited to:

1. Finance Committee: The Board has delegated the fiduciary oversight of the management of all investment assets to the Finance Committee to include establishing an investment policy statement including objectives and guidelines; developing an asset allocation within the investment policy statement; recommending the OCIO; reviewing such OCIO and Investment Managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. OCIO: The OCIO reports to the CSUB Foundation Chief Financial Officer and is delegated fiduciary oversight for advising the Finance Committee in establishing an investment policy statement including objectives and guidelines; advising the Finance Committee in developing an asset allocation within the investment policy statement; selecting the Investment Managers; reviewing such Investment Managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
3. Investment Managers: The Investment Managers have discretion to purchase, sell, or hold the specific securities that will be used to meet the investment objectives that are within the limits of their specific investment mandate and Fund.
4. Custodian: The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by a Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian 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.
5. Additional specialists: Additional specialists such as attorneys, auditors, actuaries, and others may be employed by the Board to assist in meeting its responsibilities and obligations to administer investment assets prudently.

All expenses for such experts must be reasonable and customary and will be paid out of investment assets and deducted before returns are calculated to meet objectives. Goals and objectives must be accomplished net of all expenses necessary to operate and manage a Fund.

## **ASSIGNMENT OF RESPONSIBILITY**

### Responsibility of the Finance Committee

The Finance Committee is responsible for formulating and recommending an investment policy statement to the Board. The Finance Committee will not control the day-to-day investment decisions, except for specific guidelines and limitations described in this investment policy statement and will act

within the authority delegated by the Board in all matters relating to the management of investment assets. Duties include but are not limited to the following:

- Recommending to the Board the selection and retention of the OCIO.
- Review and monitor performance of the OCIO and Investment Managers.
- Review and monitor performance of each Fund to the stated objectives.
- Monitor the asset allocation of the assets including ensuring the portfolio is within the lower limit and upper limit of the asset allocation guidelines, which will include intermediate term active adjustments over time.
- Determine if the overall investment policy statement continues to be appropriate and reasonable and make recommendations to the Board, as necessary.

### Responsibility of the OCIO

The OCIO is responsible for advising the Finance Committee on the management of investment assets and is a non-discretionary advisor. Advice will be consistent with this investment policy statement including the objectives, guidelines and constraints contained herein. Specific responsibilities of the OCIO include the following:

- Reviewing the financial markets and economic climate considering the investment objectives and investment activity.
- Assisting in the development and periodic review of the investment policy statement.
- Providing due-diligence on the Investment Managers, including searching, researching, hiring and firing Investment Managers based upon such due-diligence.
- Monitoring and communicating the performance of the Investment Managers and their progress toward the investment objectives to the Finance Committee.
- Communicating matters of policy and investment direction to the Investment Managers.
- Providing review of the investment history, historical capital markets performance, and the contents of this investment policy statement to any newly appointed members of the Finance Committee.
- The OCIO must operate without any conflicts of interest.

### Responsibility of the Investment Managers

The Investment Managers are responsible and accountable to achieve the objectives herein stated and do so within the guidelines and limitations established by this investment policy statement. While it is not believed that the limitations will hamper the Investment Managers, each should request modifications, when they deem appropriate. Investment Managers will have full discretion to make all investment decisions for the assets placed under its jurisdiction within the investment methodology and mandate approved by the Board. Institutional pooled funds and alternative investment managers will be governed by their prospectus and/or offering memorandums. Specific responsibilities of the Investment Managers include the following:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this investment policy statement.



- Reporting, on a timely basis, quarterly investment performance results.
- Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect the implementation of investment process, or the investment objective progress regarding the investment management of the Fund.
- Informing the OCIO regarding any qualitative change to the investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- Voting proxies on behalf of the Fund in line with the investment philosophy and management of the portfolio.
- The Investment Managers must operate without any conflicts of interest.

## **TIME HORIZON**

The CSUB Foundation objectives for this portfolio are currently anticipated to continue without significant modification for a period of a full business cycle which is defined as a complete expansion and contraction as measured by the National Bureau of Economic Research (NBER). Expansion is measured from the trough of the previous business cycle to the peak of the current cycle, while contraction is measured from the peak to the trough. The time horizon for evaluating success or failure of the strategy will be from peak to peak. This is consistent with the philosophy that the CSUB Foundation is to exist in perpetuity. Depending on economic and capital market conditions, the CSUB Foundation understands the need for a longer-term perspective in evaluating performance but will review performance to objectives and appropriate capital market benchmarks on much shorter time periods.

## **INVESTMENT OBJECTIVES**

The investment assets are expected to generate a total annualized rate of return, net of all investment asset expenses, 5.00% greater than the rate of inflation, as measured by the Consumer Price Index. Recognizing the volatility of the capital 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 full business cycle. The investment assets will seek to maximize long-term total returns consistent with prudent levels of risk. The long-term total returns are expected to preserve or enhance the real value of the investment assets to provide adequate resources to sufficiently support institutional activities.

The investment objectives are for the aggregate investment assets and are not meant to be imposed on each Fund. The Investment Managers goal, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Finance Committee that most closely corresponds to the style of investment management. Benchmarks must be investable and measured net of all Fund expenses to be compared to manager performance on a net of all Fund expenses basis.
2. 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 the standard deviation of quarterly returns.

3. For the purpose of evaluating Investment Managers, a full business cycle will be considered as part of the evaluation of their performance relative to specific benchmark goals.

## **SPEND POLICY**

### Spend Goal

The Board supports that the spend (distributions to the beneficiaries) to be made in the future is as important as the spend made today. This is consistent with the philosophy that the CSUB Foundation is to exist in perpetuity, and therefore, should provide for the ability to spend in perpetuity. To attain this goal, the overriding objective is to maintain purchasing power. That is, net of spend and all investment assets expenses, the objective is to grow the aggregate investment assets value at or above the rate of inflation over the investment horizon.

### Spend Amount

The Board has established that the spend amount, i.e., the distributions to the beneficiaries, shall be an amount equal to 4.00% based upon the spend formula. No distribution will be made from an individual endowment if the value is equal to or less than 80% of the historical gift value. Partial distributions will be made as long as the distribution shall not cause the value to drop below 80% of the historical gift value. At the discretion of the Foundation Executive Director and Treasurer, accumulated spending allocations that go unused may result in returning funds back to the endowment. These reinvestments will be returned to the endowment corpus and will be invested in the endowment pool.

In addition, the Board has established that the CSUB Foundation management fee shall be an amount equal to 1.00% based upon the spend formula. The CSUB Foundation investment management fee shall be distributed regardless of the endowment value.

### Spend Formula (Rolling-Average Method)

The Board has established the actual spend amount be based upon the following spend formula. The investment assets will use the rolling-average method of determining the year-to-year spend to provide smoothing or consistency. The investment assets value will be determined based upon the historical rolling-average of market value. After three-years of history the investment assets value will be based on a three-year rolling-average of market value (that is, the rolling-average will be determined as of the end of the fiscal year one year before the fiscal year in which the spend is available, i.e., the three-year rolling-average as of June 30, 2018 will determine the spend available as of July 1, 2019).

This policy serves two purposes: 1) it provides for a more consistent and predictable spend for the programs supported by the investment assets, and 2) it allows the Board to design an investment strategy which is more aggressive with a higher expected return than might be the case if spend were determined by annual investment performance. With the annual determination method, there is a tendency to spend the "excess" earnings during periods of over-performance, while maintaining a certain absolute dollar floor of spend during periods of under-performance. Over the long-term, this may result in an erosion of real principal. Therefore, by smoothing the spend, the likelihood of real principal erosion of investment assets due to investment volatility is minimized.

## **INVESTMENT POLICY**

### Investment Principles

The Board supports the following investment principles:

- The investment assets shall be invested solely in the interest of the beneficiaries of the investment assets.
- The investment assets 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 investment assets of a like character and with like aims.
- The investment assets shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
- The investment assets may be managed by Investment Managers of varying styles and philosophies to attain any given Fund objectives.

### Definition of Risk

The Board defines risk as the probability of not maintaining purchasing power over the investment assets investment time horizon, net of spend and all investment assets expenses. The Board realizes that there are many ways to define risk. Any person or organization involved in the process of managing investment assets should understand how the Board defines risk so that the assets are managed in a manner consistent with the assigned Fund objectives and investment strategy as designed in this investment policy statement.

### Investment Management Philosophy

In order to meet its needs, the investment strategy of the Board is to emphasize total return, that is, the aggregate return from capital appreciation, dividend and interest income. The primary objective of a total return policy is to achieve returns in excess of the rate of inflation after spend, net of all investment assets expenses. This must be achieved over a long-term investment horizon through all types of economic cycles.

To achieve its investment objectives, the investment assets will be allocated among a number of asset classes. These asset classes may include public equity, private equity, fixed income, hedge funds, real assets and cash/cash equivalents. The purpose of allocating the investment assets among asset classes is to ensure the proper level of diversification within the investment assets.

Understanding that risk is present in all types of securities and investment styles, the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the investment assets objectives. However, the Board recognizes that 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 of the Fund under their management.

Investment Managers will be hired on a discretionary basis to manage the investment decisions of buying, selling, or holding individual securities in the Fund under their management. Investment Managers are expected to manage the Fund within the guidelines of their specific mandate and will be evaluated regularly for their adherence to the investment discipline.

## **INVESTMENT GUIDELINES**

### Risk Tolerance

The Board recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the possibility of loss in purchasing power (i.e., inflation) are present to some degree in all types of investment vehicles. While high levels of risk are to be avoided, the assumption of some risk is warranted in order to allow Investment Managers the opportunity to achieve satisfactory long-term results consistent with the objectives of the Fund under their management.

The risk tolerance will be viewed as volatility, defined as beta and standard deviation relative to the identified risk benchmark.

Beta is the measure of a stock's volatility in relation to the overall market, for example: if a stock moves less than the market, the stock's beta is less than 1.0 ... High-beta stocks pose greater risk but provide higher return potential ... Low-beta stocks pose less risk but also lower return potential.

Standard Deviation is the measure of the risk an investment will fluctuate from its expected return, for example: the smaller the standard deviation the less volatile the investment ... the larger the standard deviation the more volatile the investment and thus the riskier the investment.

The identified risk benchmark shall be the Index Funds benchmark, defined as:

- 65% iShares ACWI ETF = MSCI All Country World Index
- 35% iShares AGG ETF = Bloomberg Barclays Aggregate Bond Index

The investment returns shall strive to be less than 120% of the identified risk benchmark's volatility measured over a rolling one (1), three (3), and five (5) year period, for example: if the identified risk benchmark has a rolling one (1) year standard deviation of ten (10), then the fund volatility should be no greater than twelve (12).

### Variability of Returns

The Board recognizes that in order to achieve its objectives for the investment assets, any given Fund will experience variability of returns and fluctuations of market value. The Board has indicated a willingness to tolerate declines in the value of the Fund consistent with the defined risk tolerance.

### Liquidity

The Board recognizes that the investment assets are considered long-term and should maintain a fully invested position with minimal cash reserves. Cash reserves on the part of each Fund will be at the

discretion of the Investment Managers investment methodology. The CSUB Foundation Chief Financial Officer will, in a timely manner, periodically provide the OCIO with an estimate of the timing of any expected spend to allow sufficient time to re-balance the investment assets and build up the necessary liquid reserves.

Cash reserves waiting to spend will be set aside from the investment assets in a separate account and invested in short-term money market or other cash equivalent instruments. These cash reserves will not be considered part of the investment assets and, therefore, not included in the asset allocation guidelines of the investment assets.

### Marketability

The Board requires that all the investment assets be invested in liquidity of various investment strategies based on the following definitions:

- **Liquid:** Liquidity daily up to one-week depending on capital market conditions. Includes investments in marketable securities.
- **Semi-liquid:** Liquidity greater than one-week up to one-year. Includes investments with securities in limited partnership structures, such as hedge funds and other program structures, generally with quarterly liquidity.
- **Illiquid:** Liquidity greater than one-year. Includes investments in private equity, real assets, infrastructure and other investments that require a schedule of capital call funding and distributions over a longer than one-year time period. The maximum permitted in an illiquid asset is 25% at purchase.

## **ASSET ALLOCATION GUIDELINES**

### Asset Allocation

The asset allocation guidelines for the total investment assets (at market value) are illustrated in the table below, which employs an optimized portfolio within the risk and liquidity constraints set forth in this investment policy statement.

The portfolio construction and diversification strategy of the funds will be in accordance with the following asset allocation guidelines:

<i>Endowment Funds</i>				
<b>Asset Class</b>	<b>Min%</b>	<b>Target%</b>	<b>Max%</b>	<b>Benchmark</b>
Public Equity	40%	55%	70%	MSCI All Country World Index
Private Equity	0%	10%	20%	Cambridge Private Equity Index
Fixed Income	10%	20%	30%	Bloomberg Barclays Aggregate Bond Index
Hedge Funds	0%	10%	20%	HFRX Global Hedge Fund Index
Real Assets	0%	5%	10%	NCREIF ODCE Index
Cash/Cash Equivalents	0%	0%	5%	Citi-90-Day Treasury Bill TR
<b>Total</b>		100%		

Target Allocation

The asset allocation guidelines illustrated in the table above indicates both an initial target allocation and a minimum and maximum allocation for each investment category. From time to time, based on changing economic circumstances, funding of capital commitments, and the various relative investment opportunities as perceived by the OCIO, the OCIO has discretion to make changes to any given target allocation, but not the minimum and maximum allocation. The OCIO may determine and execute such changes to the target allocation as would be within the stated minimum and maximum allocation guidelines of this investment policy statement and will notify the Finance Committee when changes are implemented. The OCIO may report multiple blended benchmarks to evaluate performance when there are differences in asset allocation relative to the target allocation. As an example, in the early years of developing a private equity allocation there may be several years where there is a significant underweight to private equity. In this example, the total fund performance benchmark will be adjusted to reflect the underweight to private equity and the resulting overweight to other asset classes.

Start-Up Period and Transition Period:

Each Fiduciary understands and acknowledges that it may not be prudent for the OCIO to fully populate the portfolio with securities that are consistent with this investment policy statement immediately upon the “start-up period” or immediately following a material change to the investment policy statement, the “transition period”. During a start-up period or transition period, the portfolio may not fully reflect the requirements of this investment policy statement. It is expected that under normal circumstances the start-up period and transition period may last several years or more

The intent of the minimum and maximum asset allocation is to provide the OCIO flexibility considering market conditions; however, the OCIO shall not exceed the minimum and/or maximum asset allocation without prior approval by the Board.

Rebalancing

The investment assets will be reviewed quarterly and rebalanced when any asset class is outside the minimum or maximum allocation provided in this investment policy statement. The rebalancing activity

will seek to restructure the investment assets back to within the minimum or maximum allocation. All rebalancing activity will be executed by the OCIO and communicated to the Finance Committee through the quarterly monitoring process. The OCIO does not require approval of the Finance Committee to execute any rebalancing activity. The rebalancing activity will be carried out by shifting of assets between the Investment Managers and within the total balance of the investment assets. Rebalancing funds to private equity, hedge funds, and/or real assets classes will take into consideration the liquidity of those investment programs and modifications to rebalancing activity will be considered when necessary. Cash into the investment assets from fund raising and gifts may be used to rebalance the investment assets back to within the minimum and maximum allocation. On a quarterly basis, the OCIO will review with the Finance Committee the economic outlook, changes in asset allocation, investment strategy and rebalancing activity.

## **SELECTION OF INVESTMENT MANAGERS**

The Board has delegated the selection of Investment Managers to the OCIO to provide the due diligence process and to select, retain and/or terminate the Investment Managers. The OCIO will act as a discretionary advisor and, therefore, does not require the approval of the Board for the management of this activity.

Investment Managers (excluding private equity, hedge funds, and/or real assets managers) must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The OCIO will be required to conduct and document for the Finance Committee the search and evaluation for Investment Managers recommended for each Fund representing each asset class adopted in the Asset Allocation Guidelines. The search and evaluation process will provide quantitative historical performance information using reliable manager composite data to evaluate the risk-adjusted returns of the manager's performance track records. The focus of these evaluations will be to find managers who are capable of achieving excess returns relative to appropriate capital market benchmarks, but with a primary focus on risk management, downside protection and therefore risk adjusted returns on investment. In addition, the OCIO will be required to perform and report on the qualitative analysis of the manager's personnel, investment process and stability of their business organization.

The Board understands and acknowledges that the OCIO has no control over the management or portfolio composition of any Fund. While the OCIO will use its best efforts to utilize funds with investment objectives and policies that are generally consistent with the investment policy statement asset allocation guidelines, the Board understands that an individual Fund's portfolio holdings may not at all times be consistent with the investment policy statement asset allocation guidelines.

In addition to active investment management, passive investment management and index funds may be utilized for specific asset classes and markets over the long-term investment horizon. The Board anticipates that active investment management will be prominent with the Endowment Funds.

## **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 Board has delegated to the Finance Committee to recognize a primary fiduciary responsibility to maximize investment return, while taking into consideration appropriate risk, to further its educational purposes. At the same time, the Board has delegated to the Finance Committee to endeavor to be a good corporate citizen and responsible investor by considering environmental, social and governance practices (ESG) of the corporations in which it is invested. When appropriate, the OCIO may seek to integrate Investment Managers that incorporate ESG criteria that may align with the CSUB Foundation's values on socially responsible investing. The Finance Committee does not require the approval of the Board for the management of this activity. The Finance Committee will notify the OCIO in writing of any restrictions and/or ESG considerations and recognizes that the OCIO will use its best efforts to follow such notification of such restrictions and/or ESG considerations.

## **INVESTMENT PERFORMANCE REVIEW AND EVALUATION**

Performance reports generated by the OCIO shall be compiled quarterly and communicated to the Finance Committee for review. Performance monitoring will focus on the evaluation of the following:

- Net Absolute returns – consumer price index plus spend, net of all investment asset expenses.
- Risk/Performance Benchmark returns – weighted to risk/performance benchmark guidelines.
- Index Funds Benchmark returns – iShares index funds plus treasury bills.
- Relative returns – time weighted to capital market benchmarks.
- Risk-adjusted returns – volatility within acceptable standards.
- Peer returns – annual, including the National Association of College and University Business Officers (NACUBO) endowment report and the California State University institutions endowment report.
- Investment Managers returns – within top quintile of managers of similar asset class and invest style.

The investment performance of total investment assets, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with this investment policy statement.

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 the desired investment results.



## MANAGEMENT COST, FEES AND PROFESSIONAL COMPENSATION

One of the fiduciary responsibilities of Finance Committee is to understand and account for the management cost of the investment assets. The management cost must be reasonable, to the direct benefit of the investment assets, and without any conflicts of interest. The OCIO will assist the Finance Committee in the determination, understanding and negotiation of the management cost of the investment assets. The following management cost of investment assets must be evaluative and considered:

- Fees for OCIO.
- Fees for Investment Managers, including active and passive management.
- Fees for custodian, transaction, settlement and best execution.
- Fees for alternative investment managers, including management, incentive-based performance, fund of hedge funds individual manager, and claw-back provisions.
- Fees for real estate fund, including acquisition, asset management, finance, and performance.
- Fees for commingled pooled fund, including internal expenses.
- Fees for audit, administrative, accounting and consulting services.

The most important fiduciary responsibility is in understanding where the allocation of the management cost best affects the ability of any given Fund to obtain superior risk adjusted performance and increase the probability of achieving the investment goals and objectives of the investment assets. This should not be considered a cost minimization model, but a prudent allocation of resources to obtain objectives.

## INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this investment policy statement, the Finance Committee plans to review this investment policy statement at least annually. Policy amendments must be approved by the Board.

	Finance Committee	Board
Adopted	April 16, 2018	April 16, 2018 *
Revised	January 28, 2021	January 28, 2021 *
Revised	February 16, 2022	March 30, 2022
Revised	May 17, 2023	June 27, 2023
Revised	November 20, 2024	December 4, 2024

\* Executive Committee