

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

SECTION NO. **300**

POLICY STATEMENT

DOCUMENT NO. **302**

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SECTION: **POLICY STATEMENT – ENDOWMENT AND INVESTMENT**

SUBJECT: **INVESTMENT POLICY STATEMENT**

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PURPOSE: To provide general guidelines, policies and principles for the investment of endowment funds.

EFFECTIVE DATE: September 25, 2015 (Revision Date)

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## **I. BACKGROUND**

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- e) Additional specialists such as attorneys, auditors, actuaries, and others may be employed by the Committee to assist in meeting its responsibilities and obligations to administer Foundation assets prudently.

While the Finance and Investment Committee is responsible for setting asset allocation policy for Foundation, and making decisions regarding managers retained by Foundation, they will generally not be involved in individual security decisions, with the exception of specific limitations described in these statements. Investment managers will have discretion in this regard, and will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications that they deem appropriate.

## **2. Nature of Responsibility**

- a) Finance and Investment Committee. The Finance and Investment Committee shall consist of no fewer than four (4) board members, all of whom should have substantial understanding of financial reporting, internal control principles, and/or investments. This committee has the responsibility to provide the following services to the Board:
  - 1) Meet at least four (4) times each fiscal year on dates selected by the Chair of the committee and approved by the Board of the Foundation.
  - 2) Regularly monitor the performance of the investments of the Foundation; periodically consult with the Foundation's investment advisors; recommend which firms to engage as the Foundation's investment advisors; periodically review the Foundation's investment policies and recommend changes to the policies as necessary and appropriate.
- b) Investment Consultant. The Investment Consultant is charged with the responsibility to assist the Finance and Investment Committee with its supervision of the Foundation's assets. Specific responsibilities of the Investment Consultant include:
  - 1) Assist the Finance and Investment Committee in reviewing and revising this Investment Policy Statement from time-to-time.
  - 2) Monitor asset allocation across and among asset classes. Following the close of a quarter where the actual allocations fall outside the Investment Policy Statement ranges, the Investment Consultant will create directives to reallocate assets in accordance with the rebalance procedure described in Section IV.
  - 3) Monitor the investment performance of the Foundation. Performance reports will be provided to the Finance and Investment Committee quarterly. The Investment Consultant will report in a timely manner any



- d) Custodian(s). The Custodian(s) is charged with the responsibility for safekeeping securities, collections and disbursements, and providing periodic accounting statements.

## **B. General Investment Principles**

In order to maintain Foundation in perpetuity and meet its needs, Foundation will employ a strategy that emphasizes a balanced return, relying on both current income and growth of principal (from capital appreciation, dividends, and interest income).

- 1) Foundation has a fiduciary duty of care, the duty to minimize costs, and the duty to investigate with respect to investment decision making.
- 2) Investments shall be made solely in the interest of Foundation.
- 3) Foundation's assets shall be invested with care, skill, prudence, and diligence, with the goal of producing returns equal to or exceeding prevailing standards among peers of similar asset size.
- 4) Investment of Foundation's assets shall be diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
- 5) Foundation shall invest with the following factors in mind:
  - a) General economic conditions.
  - b) The possible effects of inflation or deflation.
  - c) The expected tax consequences, if any, of investment decisions or strategies.
  - d) The role that each investment plays within the overall investment portfolio of the fund.
  - e) The expected total return from income and the appreciation of investments.
  - f) Other resources of the institution.
  - g) The needs to make distributions and to preserve capital.





### C. Investment Objectives and Allocation Guidelines

The asset allocation of the Foundation will depend upon the expected term of the investment. Invested funds may include Permanent Endowed Funds, which are classified as long-term, as well as Quasi Endowed, Term Endowed, or Capital (e.g., Building) Funds which may be classified as short-term, intermediate-term, or long-term, based on the expected frequency and magnitude of distributions.

#### SHORT-TERM PORTFOLIO

The primary Investment Objective for the Short-term Portfolio is to maintain adequate liquidity without taking principal risk. The time horizon for the Short-Term Portfolio is one (1) year or less, therefore, fixed income instruments should be limited to Investment Grade Corporate and/or Government Bonds with a maximum maturity of no more than one year to maintain financial flexibility. The Short-term Portfolio should also include the equivalent of six months' average operating cash expenditures in a checking or money market account and be immediately accessible.

#### Asset Allocation

<b>Asset Class</b>	<b>Minimum Weight</b>	<b>Maximum Weight</b>	<b>Representative Index</b>
Equity – Domestic Equity	0%	0%	Russell 3000



## LONG-TERM PORTFOLIO

The Long-Term Portfolio consists of long-term assets such as capital campaigns, building projects, endowments, etc. The time horizon for the Long-Term Portfolio is longer than five (5) years. This portion of the Portfolio is designed to maximize return, consistent with safety of principal. Liquidity is a secondary objective. It is acceptable for there to be some principal fluctuation and risk in this tier in an effort to earn a greater total return.

### Asset Allocation

<u>Asset Class</u>	<u>Minimum Weight</u>	<u>Maximum Weight</u>	<u>Representative Index</u>
Equity – Domestic	10%	4	



## **E. Investment Performance Review and Evaluation**

### **Performance Expectations**

The most important performance expectation is the achievement of long-term investment results that are consistent with the Foundation's Investment Policy Statement, but over a complete market cycle, The Foundation's overall annualized total return, after deducting for advisory, money management, and custodial fees, as well as total transaction costs, should perform above a customized index comprised of market indices weighted by the strategic asset allocation of the Foundation. Implementation of the investment policy will be directed toward achieving this return and not toward maximizing return without regard to risk. As such, The Foundation has outlined the following return objectives:

- 1) The return on the Fixed Income portion of the portfolio should exceed the Barclays Capital U.S. Intermediate Government/Credit Bond Index over the course of a full market cycle.
- 2) The return from the Equities portion of the portfolio should exceed the MSCI All Country World Index over the course of a full market cycle.
- 3) The return of the Alternatives portion of the portfolio should exceed the HFRI Conservative Fund of Funds Index over the course of a full market cycle.

The Finance and Investment Committee recognizes that the return objectives may not be attainable during some time periods. In order to ensure that investment opportunities available over a specific time period are fairly evaluated,

- 2) Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- 3) Significant qualitative changes to the investment management organization. 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.

### **Investment Consultant Review and Evaluation**

Investment Consultant review and evaluation will be completed on an annual basis evaluating the performance of the plan's assets in relation to the stated investment objectives. Overall Investment Consultant review will be completed after three years, and annually thereafter on a trailing four-year basis. Relative performance measurement may be utilized to evaluate investment consultant in relation to the objectives, and also in relation to the capital markets and to managers of similar funds with like aims.

### **III. IMPLEMENTATION**

Endowment fund assets shall be invested in accordance with this policy and in compliance with State and Federal laws and regulations. The Investment Consultant/Manager will have full discretion to invest the assets of the Fund in a prudent manner, consistent with the Fund's objectives and established guidelines.

This policy statement shall be reviewed at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Investment Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Investment Policy Statement.

The Finance and Investment Committee is charged with performing this review and shall recommend appropriate changes to the Board for approval. Copies of this policy statement (and any subsequent amendments) will be provided to all investment managers whenever changes are approved by the Board.

## GLOSSARY

**Consumer Price Index (CPI)** – measures changes in the price level of a market basket of consumer goods and services purchased by households. The CPI in the United States is defined by the Bureau of Labor Statistics as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services". The annual percentage change in CPI is used as a measure of inflation.

**Custodian** – A **custodian bank**, or simply **custodian**, is a specialized financial institution responsible for safeguarding a firm's or individual's financial assets and is not necessarily engaged in "traditional" commercial or consumer/retail banking. The role of a custodian in such a case would be to:

- hold in safekeeping assets/securities such as stocks, bond, commodities such as precious metals and currency (cash), domestic and foreign
- arrange settlement of any purchases and sales and deliveries in/out of such securities and currency
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**UPMIFA** – the Uniform Prudent Management of Institutional Funds Act provides guidance on investment decisions and endowment expenditures for nonprofit and charitable organizations. As of October 2010, UPMIFA is now the law in the District of Columbia and all states except Pennsylvania, Florida and Mississippi. The major change in UPMIFA compared to the previous model law (the Uniform Management of Institutional Funds Act) is that it replaces a requirement that nonprofits cannot spend below the original value of contributions or "historic