CALIFORNIA STATE UNIVERSITY, STANISLAUS

Auxiliary & Business Services Investment Policy

As of June 6, 2011
A. **Purpose**

The investment policy for the California State University, Stanislaus Auxiliary Business Services (ABS) is established to facilitate a clear understanding of the investment guidelines and objectives and the strategy for management of the Company's board restricted reserves and working capital assets. It also sets forth the governance structure to be followed by the ABS Board, and any Investment Consultants achieving the investment objectives. It is the intent of this policy to be both sufficiently specific to be meaningful and, at the same time, flexible enough to be practical. This policy supersedes all prior policy statements.

B. **Scope of Policy**

The Investment Policy of ABS Funds shall provide for safety of principal (Capital Preservation) while optimizing the investment income considering the lower risk profile of the investment portfolio. ABS's core business is to generate net surplus through business activities which support the University. These business transactions produce cash flow which should enable the corporation to fund long term debt, make capital investments in assets which benefit the University and produce working capital to support the operations of the company. The overall rate of return objective for the portfolio (net of fees) is the CPI plus 1-3% which is consistent with the Safety of Principal objective established by the Board.

C. **Definitions**

1. "**Board Restricted Assets**" shall mean those assets which the board designates as available for investment in securities other than cash/money market or bank certificates of deposits or short term (1-3 years Moody A rated bonds or equivalent).
2. "**Portfolio**" shall mean a portion of the assets of the Auxiliary Business Services at California State University, Stanislaus.
3. "**Board**" shall mean the board of the Auxiliary Business Services.
4. "**Fiduciary**" shall mean any individual or group of individuals who exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
5. "**Investment Manager**" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
6. "**Management Consultant**" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring. The management consultant shall be retained as a non-discretionary advisor.
7. "**Securities**" shall refer to the marketable investment securities, which are defined as acceptable in this statement.
8. "Investment Time Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met.
9. "Unrestricted Assets" shall identify those assets available to fund Auxiliary general operations.

D. Policy

Consistent with the investment guidelines set forth herein, investment objectives for this portfolio follow:

**Unrestricted Assets** (General Fund Reserves)-Preservation of Capital.

**Restricted Assets** (All other ABS Funds):

1. **Preservation of capital**: Avoid material loss of principal over the investment horizon of the portfolio relative to the market.
2. **Long-term growth of capital**: To seek long-term growth of principal of Board Restricted Funds relative to capital markets.
3. **Preservation of Purchasing Power**: To seek returns in excess of the rate of inflation over the long-term investment horizon of the portfolio relative to the market.

**Restricted Asset Return**
The total return objective (net of fees) for the portfolio, measured over a full market cycle of 2 to 5 years, shall be a minimum of the CPI plus 200 basis points net of fees. Additionally, it is expected that the portfolio's investment return exceeds a custom allocation index or total portfolio blended benchmark (e.g. Russell 3000, 90 day T-bills, S&P 500, etc.)

**Restricted Asset Risk**
The portfolio will be structured to meet the objective of capital preservation.

**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 (due to 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 growth in principal from investment income and in relative purchasing power.

**Variability of Returns**
The Board understands that, in order to achieve its objectives for ABS will experience variability of returns and fluctuations of market value. The Board has indicated a willingness to tolerate declines in the value of the portfolio of between 5% and 10% in a given year.

**Restricted Asset Liquidity**
Restricted assets are considered long-term and should maintain a fully invested position with minimal cash reserves. Cash reserves on the part of each individual Investment Manager will be at the discretion of each manager's investment methodology. The Executive Director will periodically provide the Management Consultant/Investment Manager with an estimate of the timing of the
expected cash outflows in a timely manner, to allow sufficient time to re-balance the portfolio and build up necessary liquid reserves for distribution from the investment pool.

Working Capital Assets waiting for distribution will be set aside from the investment portfolio in an "Operating Account" and invested in short-term money market instruments, corporate bonds with maturities of 0-1 year. These funds will be considered outside the strategic asset allocation of the Fund’s investment assets.

**Restricted Investment Time Horizon**
ABS must invest with an eye to providing or generating cash to meet its long term debt service, asset investment for the benefit of the University or to meet operational needs.

**Statement of Investment Policy, Objectives, and Guidelines**

<table>
<thead>
<tr>
<th>Executive Summary - Dated May 13, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Reserves:</strong> $2.7 million as of Date: June 30, 2010</td>
</tr>
<tr>
<td><strong>Unrestricted Reserves:</strong> $1.2 million as of Date: June 30, 2010</td>
</tr>
<tr>
<td><strong>Investment Horizon:</strong> 0-2 years</td>
</tr>
<tr>
<td><strong>Spending Designation:</strong> Available for Current Year Business Activity</td>
</tr>
<tr>
<td><strong>Investment Objective:</strong> Preservation of Capital, with market returns for no risk investments; Spend 100% of Investment Income in annual budget</td>
</tr>
<tr>
<td><strong>Restricted Reserves:</strong> Board Restricted Reserves</td>
</tr>
<tr>
<td><strong>Time Horizon:</strong> 2-7 years</td>
</tr>
<tr>
<td><strong>Real Return Target:</strong> CPI + 2%, net of all investment expenses.</td>
</tr>
<tr>
<td><strong>Spending Policy:</strong> Principal for retirement of debt; new investment or donation to University.</td>
</tr>
</tbody>
</table>

**Portfolio Policy Allocation:**

Asset Allocation Unrestricted Assets 0-100%:

1. Money Market Instruments through banks or other investment organizations
2. State Local Agency Investment Fund (LAIF)
3. US Federally Insured Certificates of Deposit
4. "A" rated corporate bonds maturity of 1 year or less
## Asset Allocation Table-Board Restricted Assets

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategic Asset Allocation (1)</th>
<th>Tactical Asset Allocation Ranges (2)</th>
<th>Performance Benchmark (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>50%</td>
<td>20-50%</td>
<td>73%S&amp;P500/27%EAFE</td>
</tr>
</tbody>
</table>

% Listed below represent a ratio of the total allocation to Equities

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>25-75%</td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td>Large Cap</td>
<td>15-50%</td>
<td></td>
</tr>
<tr>
<td>Growth and Income</td>
<td>10-25%</td>
<td></td>
</tr>
<tr>
<td>International Equity</td>
<td>10-20% 5% - 15%</td>
<td>MSCI EAFE</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>25% 15% - 45%</td>
<td>Lehman Aggregate</td>
</tr>
</tbody>
</table>

% Listed below represent a ratio of the total allocation of Fixed income Securities

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Taxable Fixed Income</td>
<td>20-40% 15% - 45%</td>
<td>Lehman Aggregate</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>0% 0%</td>
<td>Various HFRI Indices</td>
</tr>
<tr>
<td>Fund of Hedge Funds</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Foreign Currency Denominated Investments</td>
<td>0%-5% 0%-10%</td>
<td></td>
</tr>
<tr>
<td>Restricted Fund: Cash Equivalents/of Deposits in federally insured banks</td>
<td>20% 0%-25%</td>
<td>Citigroup 3 Month T-Bill</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100% N/A</td>
<td>See Below*</td>
</tr>
</tbody>
</table>

## E. Responsibilities

The ABS Board is a fiduciary, and is responsible for directing and monitoring the investment management of all assets. As such, the Board is authorized to delegate supervision of these investment policies, objectives and guidelines.

### Executive Director and Treasurer

- The Executive Director is responsible to work with the Corporate Treasurer and the University accounting services to arrange and handle funds movement, funds identification for investment and cash flow management.
- The Executive Director and Treasurer are authorized to enter into agreements for engaging a Management Consultant or Investment Managers or Banking Institutions to perform services associated with the investment of ABS Funds.
- All such actions shall be reviewed and approved by the Board in arrears.
Management Consultant
An Investment Management Consultant may be engaged on behalf of ABS to assist ABS in the following activities:

- Updating or revising its investment policy, objectives, and guidelines, including investment time horizon, risk tolerance and total return objectives
- Selecting one or more Investment Managers
- Measuring and evaluating the performance of Investment Managers over time
- Other tasks as deemed appropriate.

Investment Manager
An Investment Manager(s) may be engaged on behalf of ABS who shall provide day-to-day investment management services for a portion or the entire ABS investment portfolio. Each Investment Manager will have discretion to purchase, sell or hold the specific securities that will be used to meet the fund’s investment objectives.

Custodian
For each investment manager or management consultant, a Custodian shall provide full custodial services.

- Maintain possession of securities owned by ABS
- Collect dividend and interest payments
- Redeem maturing securities
- 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’s accounts. In addition, the Custodian will provide monthly documentation of portfolio activity and portfolio value.

Additional Specialists
Additional specialists may be employed by the Investment Committee to assist in meeting its responsibilities and obligations to administer the portfolio’s assets prudently.

F. Procedure and Regulations

Restricted Asset Allocation
The long-term target asset allocation for the investment portfolio is determined by the Board to facilitate the achievement of the fund’s long-term investment objective within the established risk parameters measured on a prospective basis. The Strategic Asset Allocation represents a customized investment framework with "normal" or "neutral" allocation percentages for each major asset class. It provides a guide for managing the portfolio to achieve established objectives within the defined risk tolerance.

The assets of this portfolio shall be diversified among various classes of investments. While the allocation of assets at any given time is dependent upon the overall economic and financial outlook and the relative risk/return parameters and valuation levels for each asset class, these assets will
generally be allocated among the major asset classes within certain tactical ranges (stated as a percentage of total assets) as outlined in the Executive Summary.

The actual asset allocation, which will fluctuate with market conditions, will receive the regular scrutiny of the Investment Committee, which bears the responsibility for making adjustments in order to maintain target ranges and for recommending to the Board of Trustees any changes to policy.

**Equities**
The purpose of the equity segment is to provide returns superior to that of less risky investments such as fixed income and cash as well as inflation. It is recognized that equity investments carry greater market price variability and risk than other asset classes, which could result in certain investments reflecting a market value below acquisition cost from time to time.

**Fixed Income**
The purpose of the fixed income investment is to provide a hedge against deflation, offer a generally stable component of return, and minimize the overall volatility of the portfolio. The percentage of assets allocated to fixed income should be sufficient to ensure that neither the current income nor the principal value of the portfolio declines by an intolerable amount during a period of extended deflation.

**Alternative Investments**
Up until recently, marketable alternative investments have provided diversification and a low volatility source of returns in a variety of market environments due to the low correlations with traditional asset classes. For the purpose of this policy, the definition of alternative investments includes hedge funds, venture capital, private equity, limited partnerships, and other speculative or less traditional investments including investments in foreign currency denominated securities. No investment in these securities is authorized by this policy.

**Cash and Cash Equivalents**
The percentage of total assets allocated to cash equivalents should be sufficient to assure enough liquidity to meet disbursements and general operational expenses. Liquidity requirements will be communicated to Investment Managers on a regular basis. Cash equivalents may also be used as an alternative to other investments, when Investment Managers feel that other asset classes carry higher than normal risk.

**Real Assets**
Inclusion of this asset class normally provides the portfolio with protection against unanticipated increases in inflation. Except in most recent years, these assets have possessed expected real returns that are attractive and can be a good source of portfolio diversification. No investment in real assets is authorized by this policy.

The board may take other corporate action to acquire real assets to support the University.

**Private Equity**
The lengthy investment horizon of the University endowment may allow the investment strategy the opportunity of taking advantage of return premiums normally achieved in certain illiquid and less efficient markets such as venture capital and leveraged buyouts. No investments in Private
Equity are authorized by this policy.

Criteria for Management Consultant or investment Manager Selection, Retention & Termination
The selection by the Treasurer and Executive Director of a Management Consultant or an Investment Manager selection must be based on prudent due diligence. Decisions to appoint, retain or terminate investment managers will be the responsibility of and made by the Treasurer and Executive Director and will be reported within thirty days of an appointment to the Board in writing.

Each Management consultant or Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company.

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.

The Board delegates to the Treasurer and Investment Manager the right to terminate any investment manager for any reason, including, but not limited to, the following:

1. Investment performance, which is less than anticipated given the discipline employed, and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Portfolio Rebalancing
Periodically (quarterly), the portfolio will be reviewed to determine the need to rebalance the portfolio to meet long-term asset allocation targets. The purpose of rebalancing is to maintain the risk/reward relationship implied by the stated long-term asset allocation targets. This policy may also necessitate the purchase and or sale of securities which could create additional transactional costs to the portfolio and the recognition of capital losses.

The investment portfolio will be reviewed quarterly and rebalanced when any asset class is outside the minimum or maximum policy allocation. A full re-balancing activity will restructure the portfolio back to the target asset allocation.

All actions which would be considered a rebalancing shall be communicated in writing to the Board within thirty days of any such action.

New Cash Flows
New cash flows (defined as new contributions) to the restricted asset portfolio shall be allocated to acquire specific asset classes based on the recommendation of the investment Manager or in conjunction with a Management Consultant’s recommendation to ABS. As a general rule, new cash will first be used to rebalance the total fund in accordance with target asset allocation policy. The Executive Director and Treasurer are delegated the authority to act upon the reasonable written recommendations of the Investment Manager or the Management Consultant. The results of the investment of new cash flows will be reported to the Board in writing within thirty days of the
completion of such action.

Performance Monitoring
All guidelines and objectives shall be in force until modified in writing by the Board. If, at any time, the Management Consultant or any of the Investment Managers believes that a specific guideline or restriction is adversely impeding their ability to implement his process or meet the performance objective, he should present this fact to the Executive Director or Treasurer, who will make a recommendation to the Board in writing. The Board shall make any final decision regarding guidelines and objectives.

Conflicts of Interest
All participants shall act responsibly and in accordance with the "prudent investor" rule which, in part, states: "...A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust."

All investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. All investment personnel shall disclose to the ABS any material financial interest in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investments positions which could be related in a conflicting manner to the performance of ABS's investment portfolio.

Prohibited Assets and Transactions

A. Commodities and Futures Contracts  
B. Options  
C. Short Selling  
D. Margin Transactions  
E. Alternative Investment programs

I hereby certify that the Auxiliary Business Services Investment Policy was approved at the June 6, 2011 Board meeting.

[Signature]
Hamid Shirvani, President  
Auxiliary Business Service  
June 6, 2011
Date