CALIFORNIA STATE UNIVERSITY, STANISLAUS

Foundation Endowment Investment Policy

As of March 17, 2011
Statement of Investment Policy, Objectives, and Guidelines

Executive Summary – Dated March 17, 2011

Type of Fund: Endowment
Assets: $ 9.5 million As of Date: December 31, 2010
Time Horizon: Perpetuity
Investment Horizon: Over 10 Years
Real Return Target: CPI + 5%, net of all fund expenses.
Time Horizon Return: To achieve a rate of return above inflation of 5%, net of all investment management costs.
Spending Policy: 3-5% of 16-quarter moving average of market valuations.
Asset Allocation Analysis: Reference to Asset Allocation Appendix A
Normal Policy Allocation:
## Asset Allocation Table

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Introduction

The investment policy for the California State University, Stanislaus Foundation Endowment Fund was established to facilitate a clear understanding of the investment guidelines and objectives and the strategy for management of the University's endowment assets. It also sets forth the governance structure to be followed by the Foundation Board, the Investment Committee, and any Investment Partners in 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.

Policy

The Investment Policy of California State University, Stanislaus for its Endowment Funds shall provide for safety of principal (Capital Preservation) through diversification in a portfolio of common stocks, bonds, mutual funds, cash equivalents and other investments, which may reflect varying rates of return. The overall rate of return objective for the portfolio (net of fees) is the CPI plus 5% which is consistent with the risk levels established by the Board. To be successful in an economic sense, the endowment return must keep pace with or exceed inflation over longer time periods.

Investments shall also be diversified within asset classes (e.g., equities shall be diversified by economic sector, industry, quality, and size). Moreover, the equity segment may be allocated to Managers who have distinct and different investment styles. This policy assumes that portfolio diversification and equity style diversification provide protection against a single security or class of securities having a disproportionate impact on aggregate performance. This assumption will be monitored on an ongoing basis.

1. Definitions

1. "Portfolio" shall mean a portion of the assets of the California State University, Stanislaus.
2. "Board" shall mean the Foundation Board of California State University, Stanislaus.
3. "Committee" shall refer to the Investment Committee of the California State University, Stanislaus.
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.

2 Investment Objectives

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

1. *Preservation of capital through diversification:* To seek to minimize the probability of 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 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.

3. Return

The total return objective (net of fees) for the portfolio, measured over a full market cycle of 3 to 5 years, shall be a minimum of the CPI’ plus 500 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 TBills, S&P 500, etc.)

4. Risk

The portfolio will be structured to meet the objective of capital preservation. That risk tolerance does not necessarily suggest a conservative strategy for investing the university’s assets. Some strategies that appear to be more risky individually may be more attractive when included in a portfolio of other uncorrelated strategies. This resultant portfolio risk profile should have an attractive risk profile in the aggregate. To mitigate risk of loss of capital, the portfolio should be structured to generate equity-like returns with low risk through diversification using uncorrelated asset classes that derive returns from fundamentally different sources. Strategies that may be used to achieve these goals could include investments in marketable alternatives and real assets rather than relying on traditional, low return defensive allocations of bonds and cash. Recent market turbulence has provided a reminder that careful consideration of particular investments using these strategies is critical, as is the regular monitoring of the portfolio’s overall risk profile.
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 achieve satisfactory long-term results consistent with the objectives of the California State University, Stanislaus.

Variability of Returns
The Board understands that, in order to achieve its objectives for California State University, Stanislaus assets, the 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 portfolio of between 5% and 10% in a given year.

Liquidity
The investment portion of the Fund assets is 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 Committee will periodically provide the Management Consultant with an estimate of the timing of the expected cash outflows. The Committee will notify the Management Consultant in a timely manner, to allow sufficient time to re-balance the portfolio and build up necessary liquid reserves for distribution from the Fund.

Capital Reserves waiting for distribution will be set aside from the investment portfolio in an "Operating Account" and invested in short-term money market instruments. These funds will be considered outside the strategic asset allocation of the Fund’s investment assets. The amount of funds held in the operating account should be for relatively immediate distribution and not considered funds for the tactical asset allocation management of cash.

5. Investment Time Horizon

The university’s perpetual nature provides the endowment with an open-ended strategic investment horizon that effectively equates to a period of time over 10 years. This timeframe will generally allow the portfolio to endure the volatility of market cycles. However, in the near-term, performance will be evaluated over a market cycle (generally three to five years.) Longer investment time horizons allow for the possibility of inclusion of higher volatility/higher return asset classes in an attempt to enhance portfolio returns.

6. Delegation of Authority

The Foundation Board (the “Board”) of the California State University, Stanislaus 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 to its Investment Committee. Further, the Board is authorized to delegate certain responsibilities to professional experts in various fields.

These include, but are not limited to:

**Investment Committee**  The Investment Committee is comprised of active and associated members of the Board. The Board, in conjunction with the President, is responsible for the selection, appointment, and removal of members of the Investment Committee. The President and the Chairman of the Board shall be ex-officio members of the committee. The Chief Financial Officer of the Auxiliary Services and/or the Vice President for Business and Finance provide staff support to the committee. The Investment Committee has the following key responsibilities:

- Recommending policy
- Ensuring fiduciary responsibilities
- Long-term goals and asset allocation
- Retention or removal of investment managers, partners, consultants, etc.

**Management Consultant**  The Investment Management Consultant may assist the Investment Committee in the following activities:

- Establishing 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**  California State University, Stanislaus may enter into an agreement with selected Investment Managers who shall provide day-to-day investment management services to the 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**  The Custodian shall provide full custodial services.

- Maintain possession of securities owned by the fund
- 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.

7. **Assignment of Responsibility**

**Responsibility of the Investment Committee**
The Committee is responsible for formulating and recommending policy, including, but not limited to, the investment objectives, spending policy, and investment policy, for the Fund to the Board and the management and fiduciary oversight of the investment management of all Fund assets. The Committee does not intend to control the day-to-day investment decisions, with the exception of specific guidelines and limitations described in this Statement. Duties include but are not limited to the following:

1. Establish, modify, and approve investment guidelines and limitations. The Committee acts with the Board's authority in all matters relating to prescribing, modifying, and approving guidelines and limitations established in this Statement, including, but not limited to, the investment guidelines, asset allocation guidelines, and management costs, fees, and professional compensation, to the Management Consultant and all Investment Managers regarding the investment of Fund assets.
2. Selection and retention of Investment Managers as the investment policy dictates. The Committee acts within the authority delegated by the Board in all matters relating to Investment Manager selection.
4. Monitor the asset allocation of the Fund. The Committee acts with the Board's authority in all matters relating to rebalancing the portfolio to the strategic asset allocation targets, which will include intermediate term active adjustments over time.
5. Review investment methodology. Determine if the overall investment methodology, including the investment objectives, policies, guidelines, and constraints, established in this Statement continue to be appropriate and reasonable and make recommendations to the Board as necessary. Nothing herein is intended by contract or otherwise to limit the powers or rights of the Committee or the Board should they elect to exercise additional responsibilities then those herein above enumerated.

**Responsibility of the Management Consultant**
The Management Consultant's role is that of a Non-Discretionary Advisor to the Committee. Investment advice concerning the investment management of Fund assets will be offered by the Management Consultant, and will be consistent with the overall investment methodology, including the investment objectives, policies, guidelines, and constraints, established in this Statement and direction of the Committee. Specific responsibilities of the Management Consultant include the following:

1. Advising the Committee on and reviewing the financial markets and economic climate in light of the Fund's investment objectives and investment activity.
2. Assisting the Committee in the development and periodic review of investment policy, including the recommendation of the prescription and modification of the investment guidelines and limitations regarding the investment of Fund assets.
3. Conducting Investment Manager searches when requested by the Committee.
4. Providing due-diligence or research with respect to the Investment Manager(s) to the Committee in order to determine and approve the qualifications of any individual, or group of individuals, to be appointed to manage the investments of all or part of the Fund assets as an Investment Manager.
5. Monitoring and evaluating the performance of the appointed Investment Manager(s) to provide the Committee with the ability to determine the progress toward the investment objectives and advising on with respect to the appropriate action regarding the retention or termination of any Investment Manager.
6. Communicating to the Committee matters of the investment methodology, including the investment objectives, policies, guidelines, and constraints, established in this Statement, Investment Manager research, and Investment Manager performance.
7. Communicating matters of investment direction with respect to the investment methodology, including the investment objectives, policies, guidelines, and constraints, established in this Statement and directed by the Committee to the Investment Managers.
8. Providing review of the Fund investment history, historical capital markets performance, and the contents of this Statement to any newly appointed members of the Committee.
9. The Management Consultant must operate without any conflicts of interest.
10. Such other and additional responsibilities consistent with the foregoing and reasonably requested by the Committee or the Board from time to time.

Responsibility of the Investment Manager(s)
Investment Managers will be held responsible and accountable to achieve the objectives herein stated, and do so within the investment methodology, including the investment objectives, policies, guidelines, and constraints, established in this Statement and by direction of the Committee. While it is not believed that the limitations will hamper Investment Managers, each Manager should request the Committee for modifications, when they deem appropriate. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction within the investment methodology and guidelines approved by the California State University, Stanislaus. Institutional pooled funds and Investment Managers for Alternative Investments will be governed by their prospectus or offering memorandums. Specific responsibilities of the Investment Manager(s) include the following:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within their specific investment methodology, including the investment objectives, policies, guidelines, and constraints, established in this Statement.
2. Reporting, on a timely basis, quarterly investment performance results to the Management Consultant and the Committee.
3. Communicating to the Management Consultant and the Committee any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund’s investment management.

4. Informing the Management Consultant and the Committee regarding any qualitative change to the investment management organization: Examples include, but are not limited to, changes in portfolio management personnel, ownership structure, investment philosophy, or material changes relating to its business not involving the Fund but that might adversely affect the Fund.

5. Voting proxies on behalf of the Fund in line with the investment philosophy and management of the portfolio within the investment methodology, including the investment objectives, policies, guidelines, and constraints, established in this Statement.

6. The Investment Managers must operate without any conflicts of interest.

8. **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 described in Attachment A.

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. Any investment in instruments of this type must be approved by the Finance and Investment Committee.

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. Such investments as approved by the Finance and Investment Committee may include real estate, resource related assets (commodities), and inflation linked debt instruments.

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. Strategic partnerships with firms that over time, rank in the upper one-third of investment return distribution for representative funds, may provide investments that can improve yield. Exposure to this segment if at all, will be capped at a level deemed appropriate by the Investment Committee.

9. Criteria for Investment Manager Selection, Retention & Termination

The California State University, Stanislaus has delegated the selection of Investment Manager(s) to the Committee through the due diligence and advisory services of the
Management Consultant. Investment Manager selections must be based on prudent due diligence procedures. Decisions to appoint, retain or terminate investment managers will be the responsibility of and made by the Committee with the assistance and recommendations of the Management Consultant. The Management Consultant will require approval of the Committee in all matters regarding changes to the Investment Managers of the Fund. The Committee does not require the approval of the Board for the management of this activity unless and until the Board otherwise requires.

Each traditional (excluding alternative investment managers) Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Management Consultant will be required to conduct and document for the California State University, Stanislaus an Investment Manager search and evaluation for each asset class adopted in the Asset Allocation Analysis. The Investment Manager Search 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 Management Consultant will be required to perform and report a qualitative analysis of the Investment Manager’s personnel, investment process and stability of the Manager’s business organization. In addition to active management, passive investment management and index portfolios will be utilized in the initial stages and in certain cases may be employed for specific markets over the long-term Investment Horizon.

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 Investment Committee reserves 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.

10. Portfolio Rebalancing

Periodically (quarterly), the Investment Committee on its own or in conjunction with the Management Consultant will review the portfolio 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 process may result in withdrawing assets from Investment Managers that have performed well in the latest year or adding assets to Managers who have lagged in the most recent period. 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. Where possible, new cash infusions will be used to rebalance the portfolio rather than liquidation.

The strategic asset allocation upper and lower limits should be within 20% for all liquid strategies, 25% for semi-liquid strategies and 30% for illiquid strategies. 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 rebalancing activity within the individual funds in a pool created by a Management Consultant will be executed by the Fund Manager and communicated to the Committee through the quarterly monitoring by the Management Consultant process. Rebalancing among funds within the portfolio will be recommended by The Management Consultant requires approval from the Investment Committee to execute all re-balance activity. All re-balancing activity will be carried out by shifting of assets between the Investment Managers and within the total balance of the Fund. Re-balancing funds to Alternative Asset Classes will take into consideration the liquidity of those investment programs and modifications to re-balancing activity will be considered when necessary. Without modifying the Committee's authority, when alternative asset classes move outside their approved limits, the Committee understands it could take a reasonable time to adjust the allocation due to the liquidity constraints of these assets. Changes in asset allocation, investment strategy and re-balance activity will be reviewed quarterly by the Committee with the Management Consultant.

11. **New Cash Flows**

New cash flows (defined as new contributions) to the investment portfolio shall be allocated to acquire specific asset classes based on the approved recommendation of the Investment Committee alone or in conjunction with the Management Consultant recommendation. As a general rule, new cash will first be used to rebalance the total fund in accordance with target asset allocation policy.

12. **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 or Partners 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 Chair of the Investment Committee.

The Management Consultant will review its portfolio performance on a regular basis.
and advise the Investment Committee on Managers' performance. The Investment Manager's performance will be reviewed by the Investment Committee at least quarterly. The Investment Managers, as requested, will report portfolio holdings and quarterly performance. Additionally, the Management Consultant/Investment Managers will provide a written update concerning their current investment strategy and market outlook at least quarterly. The Managers are required to inform University management of any change in firm ownership, organizational structure, professional personnel, accounts under management, or fundamental investment philosophy.

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

- Net Absolute returns to Policy Goals - (CPI + Spending, Net Expenses)
- Relative Returns – time weighted to capital market benchmarks (Normal Policy)
- Risk-adjusted returns – Returns within acceptable volatility standards.
- Total Fund Peer Universe Returns – compared to NACUBO universe standards.
- Manager Peer Universe Returns – compared to top quintile investment managers of similar asset class and invest style

The performance of individual portfolios overseen by different management consultants will be summarized by the Treasurer and the Executive Director of the Foundation. The investment performance of all portfolios, 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 the investment objectives, goals, and guidelines as set forth in this Statement. The Committee intends to evaluate the portfolio(s) over at least a five-year period.

Individual asset class performance will be measured against their appropriate benchmark. All benchmarks can be found in Appendix A.
13. **Spending Policy**

The University's spending policy is a critical component of the endowment's investment policy. The Foundation Board approves the University's approach to endowment spending. The current approach employs a total return concept to endowment spending, thereby considering all forms of investment return (i.e. dividends, interest, and capital gains) equally when allocating returns between support for operations and preservation of endowment value. The University's spending and investment practices are integrated and the "smoothing" of returns over a number of investment periods (quarters) provides stability of cash flow support of operations while preserving the purchasing power of the endowment.

The University's Endowment Spending Formula:

The spending formula contains two components, (1) market value, and (2) spending rate.

Market value is calculated using a smoothing technique by calculating a rolling sixteen (16) quarter average of market value (Rolling Average). This technique dampens the effect of short term market volatility.

- The annual spend will be targeted at 3-5% of the Rolling Average, which will be inclusive of all fees, earnings and losses.

If an individual fund in the endowment was established with a specific annual payout rate; or if there is a commitment by the Foundation for a multi-year award from a specific endowment; or if the endowment fund was established without being fully funded and remains underfunded, then the Executive Director will make individual spend recommendations for these endowment funds and approved or modified by the Board.

14. **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 Vice President for University Advancement 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 the Foundation's investment portfolio. The Vice President for Advancement shall report to the Chairperson of the Board any issues or conflict of interest.
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Total Portfolio Blended Benchmark: 40% S&P 500/15%EAFE/25%Lehman Aggregate/20%HFRI Fund of Funds

(1) Strategic Asset Allocation refers to the long-term weightings for each of the major asset classes that best fit an investor’s risk and return profile.
(2) Tactical Asset allocation refers to active decisions to overweight or underweight asset classes in the near-term relative to their strategic allocations.
(3) A market benchmark used for informational purposes to evaluate performance. Additional information on investment styles and benchmarks is available upon request.
(4) All international equity investments are not currency-hedged unless so indicated.
Appendix B: 
Guidelines for Investment Managers

General Guidelines for All Managers

The Investment Managers shall have complete discretion in the management of the assets subject to the guidelines set forth herein.

Mutual funds or commingled funds may be used in any category of investment management. When one is selected, however, it is expected that the fund(s) will, in general, comply with the guidelines set forth herein. No fund may be used without approval of the Investment Committee.

Cash equivalents may be held in any Manager's portfolio at the Manager's discretion so long as the securities used comply with the guidelines established for Fixed Income Managers. Managers will be evaluated, however, based upon their performance relative to the appropriate index benchmark, regardless of the amount of cash equivalents held during any performance measurement period.

Investment Managers shall be required to provide quarterly reports. Performance shall be reviewed quarterly with emphasis on mid- to long-term objectives which are generally defined as three and five years respectively.

Fixed Asset Managers

The investment objective for the fixed income segment is to outperform the Lehman Brothers Aggregate Bond Index by 50 basis points per annum net of fees. In addition, each fixed income Manager will be measured against an appropriate benchmark for his/her investment style or the duration of the portfolio, as well as against an appropriate peer manager universe. It is expected that the Manager(s) will meet the fixed income objective established and will consistently provide investment returns placing the fund's performance at least in the second quartile of a peer manager universe on an annual basis. In addition to short-term performance reviews, the Managers will be evaluated over rolling three and five year periods.

Certain guidelines for acceptable fixed income instruments, portfolio quality, diversification, and limitations on the use of certain securities are the same for all fixed income Managers unless specifically noted within a specific style category.
Fixed Income Instruments

Subject to limitations noted below, fixed income instruments, can include U.S. Treasuries and Agencies, U.S. and Yankee Corporate bonds, International Non-Dollar bonds, Mortgage Pass-through securities (GNMA, FNMA, FHLMC, Savings & Loan, Banks), Collateralized Mortgage Obligations (CMOs), Eurodollar securities of U.S. and Foreign issuers, U.S. Preferreds and Non-Convertible Adjustable Rate Preferreds.

Short-term instruments, subject to limitations noted below, can include U.S. Treasury and Agency instruments, Certificates of Deposit and Bankers Acceptances of U.S. banks, Repurchase Agreements, Eurodollar CD's, Commercial Paper, U.S., Yankee and Eurodollar Floating and Variable Rate Notes and Certificates of Deposit, U.S. Money Market Funds and Bank STIF's.

Forward transactions for the purpose of hedging foreign currencies are permitted subject to limitations noted below.

Quality

High quality issues (Moody's rating of A or better) should be emphasized with a minimum quality rating of Baa and/or BBB at purchase. If a security's quality rating falls below the equivalent of BBB, and the Manager continues to hold the security, the Manager shall notify the Investment Committee and state his/her reason for holding the security. The average quality of the portfolio shall be no less than A.

Certificates of deposit issued by a nationally or state-chartered bank or savings association or federal association or a state or federal credit union or by a state-licensed branch of a foreign bank are permissible so long as the long-term debt rating of that institution is rated in a category of "A" or its equivalent or better by two nationally recognized rating services. In addition the issuing institution must have assets in excess of $10 billion or the amount of the Certificate of Deposit is fully insured by a unit of the Federal Deposit Insurance Corporation.

Diversification

It is also expected that, in general, fixed income portfolios shall be well-diversified with respect to sector, industry, and issuer in order to minimize risk.

Investments in securities of a single issuer (with the exception of the U.S. government and its fully guaranteed agencies) should not exceed 10% of the portfolio.
Duration

It is expected that the portfolio duration (maturity) of fixed income Manager(s) shall be within 25% plus or minus of the duration (maturity) of the benchmark index for each fixed income portfolio.

Limitations

No more than 20% of the market value of a portfolio under the management of a Management Consultant overseeing individual fund managers may be invested in foreign securities (dollar and non-dollar denominated).

Futures and options as well as forward contracts to hedge currency positions must be traded on public exchanges and over-the-counter with the 50 largest international and 25 largest U.S. banks in asset size and leading U.S. and foreign brokers and dealers.

Certificates of deposit and bankers acceptances of foreign banks must be from banks with net worth in excess of $1 billion.

At no time will the use of leverage be permitted in fixed income portfolios.

Derivatives

In all cases, the use of derivatives is subject specific approval by the Finance and Investment Committee and to the same limitations set for cash market securities (including, but not limited to, duration, counterparty credit quality, asset concentrations, etc.). Any derivatives used must be highly liquid and have an active secondary market.

I. Total Return

The investment objective for the Total Return segment is to outperform the Lehman Aggregate Bond Index by 50 basis points per annum net of fees and the median of a peer universe of managed equity funds.

II. High Yield

The High Yield segment includes debt which is rated below BBB in quality by Moody's and other rating agencies. The investment objective for the High Yield segment is to outperform the Morningstar Average of High Yield Funds on a net of fees basis. In addition, the portfolio will be compared to the Merrill High Yield Master Bond Index. This asset class may not be included without the specific approval of the Finance and Investment Committee.
**Equity Managers**

The investment objective for the total equity segment is to outperform the S&P 500 by 100 basis points per annum net of fees over a full market cycle. The performance of each equity Manager will be measured against appropriate benchmarks for each investment style as well as against a universe of managed funds. In addition to short-term performance reviews, the Managers will be evaluated over rolling three and five year periods.

Specific portfolio management decisions, including security selection, size, quality, number of industries or holdings, emphasis on income levels, portfolio turnover, and the use of options or financial futures, are left to the Manager’s discretion subject to standards of fiduciary prudence and the guidelines set forth herein.

Certain guidelines for portfolio diversification as well as on limitations on the use of certain securities are the same for all equity Managers unless specifically noted within a specific style category.

**Equity Securities**

Subject to limitations noted below, investment Managers may invest in equity securities listed on the principal U.S. exchanges or traded in the over-the-counter markets, including American Depository Receipts ("ADR’s").

Convertible securities will be regarded as equity securities within the portfolio.

**Diversification**

In no case (excepting mutual fund shares) or without waiver by the Investment Committee shall a single security exceed 5% of the market value of the equity portion of the fund or portfolio as the case may be at cost and 10% at market value.

I. Growth Equity

The investment objective for the Growth segment is to outperform the S&P 500 Index by 100 basis points per annum net of fees over a five year period. Additionally, over shorter term horizons, Manager(s) should outperform the Wilshire Midcap Growth Index by 75 basis points and the median of a peer universe of managed equity funds. The percentage not allocated to equities shall be invested in short-term interest bearing securities. Although this is an equity fund, cash may be used to defend principal fluctuations in adverse market conditions. Specific allocation decisions will be left to the discretion of the investment Managers. The use of ADR’s is permitted, but it is the intent of this segment to be a
domestic portfolio and therefore the ADR's used should be those of international companies who derive a significant portion of their revenues from the U.S.

II. Value Equity:

The investment objective for the Value segment is to outperform the S&P 500 Index by 75 basis points per annum net of fees over a five year period. Additionally, over shorter term horizons, manager(s) should outperform the Russell 1000 Value Index by 100 basis points per annum net of fees and the median of a peer universe of managed equity funds. The percentage not allocated to equities shall be invested in short-term interest bearing securities. Although this is an equity fund, cash may be used to defend principal fluctuations in adverse market conditions. Specific allocation decisions will be left to discretion of the investment Managers. The use of ADR's is permitted, but it is the intent of this segment to be a domestic portfolio and therefore the ADR's used should be those of international companies who derive a significant portion of their revenues from the U.S.

III. Small Cap Domestic Equity:

The investment objective for the Small Cap segment is to outperform the Wilshire 1750 by 150 basis points per annum net of fees and the median of a peer universe of managed equity funds.

IV. Private Equity:

The benchmark for private equity investments will be determined at the time of the first investment into this asset category. The benchmark will be based upon the type of private equity investment.

V. International Equity:

The investment objective for the International Equity segment is to meet or exceed the Morgan Stanley Capital Europe, Australia and Far East (EAFE) Index by 75 basis points net of fees. Hedging of foreign currencies may be allowed.

Foreign Currency Denominated Investments

Up to 10 of the total endowment funds may be invested in securities specifically designed to gain exposure to foreign currencies. This asset class may also be used to gain exposure to a specific foreign country. This asset class may not be included in the Graystone portfolio or any other portfolio manager's pool without the specific approval of the Finance and Investment
Committee.

Prohibited Assets and Transactions
Prohibited investments for traditional Investment Managers include the following*:

I. Commodities and Futures Contracts
II. Options
III. Short Selling
IV. Margin Transactions

*Alternative Investment programs may be expected and permitted to engage in any of above investments or transactions.

I hereby certify that the Foundation Endowment Investment Policy was approved at the February 2, 2011 Finance and Investment Committee Meeting.

Dorothy Bizzini, Chair
Finance and Investment Committee
California State University Stanislaus Foundation

March 17, 2011
Date

I hereby certify that the Foundation Endowment Investment Policy was approved at the March 17, 2011 Board of Directors Meeting.

Matt Swanson, President
Foundation Board of Directors
California State University Stanislaus Foundation

March 17, 2011
Date

Humid Shirvani, President
California State University Stanislaus Foundation

March 17, 2011
Date