Stanislaus State

Foundation Endowment

Investment Policy Statement

June 2020

Executive Summary

Type of Fund: Endowment
Primary Investment Objective: Preservation of corpus net of spending and inflation
Time Horizon: Perpetuity
Investment Horizon: Full Economic Cycle
Return Target: Inflation (2%) + Administration Fee (1%) + Spending (3%) = 6%
Spending Policy: up to 3% of 16-quarter moving average of market valuations
Administration Fee: Up to 1% of 16-quarter moving average of market valuations
Risk: Risk Benchmark: 60% MSCI All Country World, 25% Barclays Aggregate Bond Index, 10% HFRI Fund Composite Index
Risk Budget: up to 120% of the volatility of the risk benchmark.
Maximum Illiquidity: 20%

Asset Allocation Guidelines:

Asset Class	Target	Minimum	Maximum
Public Equity	60	50	75
Fixed Income	20	10	35
Private Equity	5	0	10
Real Assets	5	0	10
Hedge Funds	10	0	20

Introduction

The California State University, Stanislaus Foundation Endowment Fund has established an Investment Policy Statement ("The Policy") pursuant to the guidance provided under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and appropriate practices for management of trusts as set forth in the Uniform Prudent Investor Act ("UPIA"). The goal of this Policy is to provide a framework for the management and investment of the fund assets ("the Portfolio") to assist in achieving the goal to have sufficient assets to meet spending needs as they become due. The Foundation's Board of Directors (the "Board") and the Finance and Investment Committee (the "Committee") has delegated certain investment decisions to a third party advisor ("Outsourced Chief Investment Officer" "Investment Advisor" or "OCIO") to execute the investment strategy on a discretionary basis within the guidelines of this investment policy statement. Additionally, the Investment Managers under the jurisdiction granted by the Investment Advisor have discretion to make all investment decisions for the assets placed under its jurisdiction.

Purpose

This Investment Policy Statement is intended to:

- Establish the expectations, objectives and guidelines in the investment of the Portfolio's assets.
- Create the framework for a well-diversified asset mix that can be expected to generate acceptable long- term returns at a suitable level of risk. The framework includes:
    - Describing an appropriate risk posture for the investment of the Portfolio;
    - Establishing the relevant investment horizon for which the Portfolio will be managed, establishing reasonable expectations, objectives and guidelines in the investment of the assets, defining and assigning the responsibilities of all involved parties;
    - Setting forth an investment structure detailing permitted asset classes and expected allocation among asset classes, and establishing a basis for evaluating investment results;
    - Establishing investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets; encouraging effective communication between the Investment Advisor, any Investment Managers retained by the Investment Advisor and the Finance and Investment Committee (or Board);

This Policy is intended to be a summary of an investment philosophy that provides guidance for the Portfolio. The Policy shall serve the Investment Advisor as the principal source for developing an appropriate asset allocation strategy. The Investment Policy Statement is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. The investment policies described in this Investment Policy Statement should be dynamic. These policies should reflect the Finance and Investment Committee's current status and philosophy regarding the investment of the Portfolio. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the portfolio and to the Finance and Investment Committee's attitude towards risk. Any changes in this Investment Policy Statement will be in writing and will be communicated to the Investment Advisor.

It is understood that there can be no guarantee about the attainment of the goals or investment objectives outlined herein.

Delegation of Authority

The governing body of Fund is the Board, who are fiduciaries and have overall responsibility for Policy. As such, the Board is authorized to delegate certain responsibilities to others. The Board has delegated responsibility for investing the Fund to the Finance and Investment Committee who has delegated certain responsibilities to prudent experts.

Responsibility of the Board

- Approving investment policies.
- Ensuring that the costs are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution.
- Make reasonable effort to verify facts relevant to the management and investment of the fund assets.

Responsibility of Finance and Investment Committee

- Projecting the Foundation's spending policy, financial needs, and communicating such needs to the Investment Advisor.
- Establishing overall financial objectives, risk tolerance, investment time horizon and setting investment policies and notifying the Investment Advisor promptly of any changes to this information.
- Setting parameters for the asset allocation.
- Selecting a qualified Investment Advisor.
- Selecting a qualified Custodian.
- Establishing a process and criteria for the selection and termination of the Investment Advisor and Custodians.
- Monitoring investment results regularly to assure that objectives are being met and the Investment Policy Statement guidelines are being followed.
- Communicating on a structured and ongoing basis with those persons responsible for investment results.
- Responsible for and empowered to exercise all rights, including proxy-voting rights.

Responsibility of the Investment Advisor

The Investment Advisor will be a discretionary advisor to the Finance and Investment Committee. Investment advice concerning the investment management of the Portfolio will be offered by the Investment Advisor, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Investment Policy Statement. The Investment Advisor may assist the Finance and Investment Committee in establishing investment policies, objectives and guidelines as is set forth in this Policy and as is amended from time to time. In addition, the Investment Advisor will be responsible to review Investment Managers, measure and evaluate investment performance, and other tasks as deemed appropriate. Ongoing investment decisions will be made on a discretionary basis by the

Investment Advisor, within the investment and governance parameters delineated in this Investment Policy Statement.

The Investment Advisor represents that with respect to the performance of its duties under this Investment Policy Statement, it is a "fiduciary" and is registered as an investment advisor under the Federal Investment Advisers Act of 1940 (the "Advisors Act") and will perform the duties set forth hereunder consistently with the fiduciary obligations imposed under the Advisors act, and regulations promulgated thereunder and any interpretations thereof by the U.S. Securities and Exchange Commission, notwithstanding the potential conflicts of interest described below.

Specific responsibilities of the Investment Advisor include, but are not limited to:

- Assisting in the development and periodic review of the Investment Policy Statement, and asset allocation guidelines;
- Execution of the investment portfolio management, asset allocation, rebalancing and other day-to-day responsibilities on a discretionary basis within the guidelines of this Investment Policy Statement;
- Ongoing due diligence required to monitor the individual Investment Managers and to provide a periodic review of Investment Manager's performance considering among other factors, historical composite investment performance, investment risk, investment process and investment personnel.
- Reporting performance and return attribution.

Responsibility of the Investment Managers:

The Investment Managers have discretion to make all investment decisions for the assets placed under its jurisdiction by the Investment Advisor. The Finance and Investment Committee and the Investment Advisor desire to permit the Investment Managers flexibility to maximize investment opportunities and practice prudent management in order to conserve and protect the assets and to prevent exposure to undue risk. Specific responsibilities of the Investment Managers include, but are not limited to:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- Informing the Advisor regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment policy, etc.
- Voting proxies, if requested by the Finance Committee, on behalf of the Foundation and communicating such voting records to the Finance Committee on a timely basis.

Investment Objective

The long-term investment objective of the Portfolio is the preservation of corpus net of distributions and inflation. The absolute return goal is determined by the following formula: Inflation (2%) + Administration Fee (1%) + Spending (3%) = 6%. The fiduciaries acknowledge that in order to achieve the long-term objective there may be extended periods of economic uncertainty or dislocation during which the performance may lag the benchmarks and/or not meet the investment objectives. In order to meet the long-term investment objective the portfolio is designed for long-term growth of capital with a total return emphasis.

Time Horizon

The portfolio has a perpetual time horizon. For performance evaluation and strategic planning purposes a minimum of a full economic cycle will be considered. A full economic cycle 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. Historically a full economic cycle is between 7-10 years but may vary in length.

Spending Policy & Administration Fees

The Foundations spending policy is a critical component of the endowment's investment policy. The Foundations 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 spending and administration fee formula contains two components, (1) market value, and (2) distribution rate.

1. Market value is calculated using a smoothing technique by calculating a rolling sixteen (16) quarter average of market value (moving average). This technique dampens the effect of short term market volatility.
2. Distribution Rate is a percentage of the 16 quarter moving average, which will be inclusive of all fees, earnings and losses.
    - The annual spend is up to 3%.
    - The annual administrative fee is up to 1%.

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.

Investment Guidelines

Asset Allocation Targets

The Board and Finance and Investment Committee recognizes the strategic importance of asset allocation and style diversification in the investment performance of the Portfolio over long periods of time. The Investment Advisor will determine how the assets are allocated on a discretionary basis within the ranges described below.

Asset Class	Target	Minimum	Maximum
Public Equity	60	50	75
Fixed Income	20	10	35
Private Equity	5	0	10
Real Assets	5	0	10
Hedge Funds	10	0	20

Tactical Adjustments

The displayed above indicates both an initial target allocation and a range 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 Investment Advisor, the Investment Advisor has discretion to make changes to the target allocations. The Investment Advisor may determine and execute such changes as would be within the stated guidelines of this Investment Policy Statement and will notify the Finance and Investment Committee when changes are implemented.

Start-Up and Transition Periods:

The fiduciaries understand and acknowledge that it may not be prudent for the Investment Advisor to fully populate the portfolio with securities that are consistent with this IPS immediately upon the "Start-up period" or immediately following a material change to the IPS (the "transition period"). During a start-up or transition period, the portfolio may not fully reflect the IPS requirements. It is expected that under normal circumstances start-up and transition periods may last several months or more

Asset Class Guidelines

The Investment Advisor may populate any of the asset classes described below with mutual funds, exchange traded funds or collective trust funds (collectively "Funds"). The fiduciaries understand and acknowledge that the Investment Advisor has no control over the management or portfolio composition of any Fund. While the Investment Advisor will use its best efforts to utilize funds with investment objectives and policies that are generally consistent with the IPS guidelines, the Finance and Investment Committee understands that individual fund's portfolio holdings may not at all times be consistent with the IPS guidelines.

- Equities
  - Public Equity: The primary purpose of the public equity allocation is to provide long-term capital appreciation in order to facilitate the real growth of the corpus and the generation of a growing spending stream. It is recognized that the equity investments will have greater return variability than the fixed income investments. Equity securities shall consist of, but are not limited to, common stocks and equivalents (issues convertible into common stock, etc.), ADRs and equity securities of non-U.S. companies (Ordinary Shares).
  - Private Equity: The primary purpose of the private equity allocation is to enhance the return of the equity fund. Private equity shall consist of, but are not limited to, venture capital, buyout, co-investment and special situations on both a primary and secondary basis.
- Real Assets:
  - Assets held primarily as a hedge against unanticipated inflation. Real assets may include, but are not limited to, public (REITS) or private real estate, Treasury Inflation Protected Securities (TIPS), natural resource-related investments, (e.g., public or private equity participation in oil and gas activities, or investment in marketable securities of energy companies), infrastructure and commodities.
- Hedge Funds:
  - A portion of the fund may be invested in hedge funds to enhance diversification and to increase long-term returns. Investments in Hedge Funds are intended to provide relatively more consistent absolute returns that are less correlated with the U.S. equity and bond markets than conventional stock and bond managers. Hedge Fund strategies may include, but are not limited to, long/short equity, equity market neutral, merger arbitrage, convertible arbitrage, credit opportunities, commodities, currencies, volatility, absolute return oriented, tactical asset allocation, alternative beta, and managed futures. Diversified Fund of Funds may be held in the forms of professionally managed pooled limited partnership investments offered by professional investment managers.
- Fixed Income:
  - Core Fixed Income: The primary purposes of the Core Fixed Income allocation is to provide a hedge against deflation or economic contraction and to help diversify the total Fund to reduce overall Fund volatility.
  - Opportunistic Fixed Income: The primary purposes of the opportunistic fixed income allocation are to earn long term growth, income and to diversify the fixed income allocation. Investments in opportunistic fixed income may include but are not limited to high-yield bonds, distressed debt, emerging markets debt/currency, senior bank loans, and residential mortgage backed securities and private credit.
- Opportunistic:
  - A portion of the fund may be invested in strategies that do not fit neatly into any of the traditional asset classes outlined within this policy. This may include strategies that are simply a blend of other asset classes, strategies not covered by other asset class

definitions, or investments that represent a particular opportunity given the current phase of the capital markets cycle.

Restrictions

- Global Investing
    - The portfolio may invest across multiple economies and currencies to improve the potential of producing returns in all market environments.
        - Equity: The portfolio will maintain a minimum of 24% invested in the US Equity Market (40% US vs. 60% International).
        - Core Fixed Income: The core fixed income allocation will have a majority allocated to the US.
- Credit Quality & Duration
    - To provide a hedge against extended deflation, the Core Fixed Income allocation should maintain a high credit quality (i.e., a dollar-weighted average credit rating of Investment Grade or better), and will generally have an intermediate to long-term duration (i.e., 3 to 8 years). For Individual Bond purchases, high quality issues with a minimum quality rating of Baa and/or BBB at purchase should be emphasized.

Risk:

The Board understands that in order to achieve its investment objectives, the Fund's assets will experience volatility of returns and therefore fluctuations of the Fund's market values. Total portfolio risk will be viewed as volatility, defined as beta and standard deviation, relative to a "risk benchmark".

- Risk Benchmark: 60% MSCI All County World Index, 25% Bloomberg Barclays Bond Index, 10% HFRI Fund Composite Index
- Risk Budget: Target portfolio risk shall strive to be less than 120% of the risk benchmark's volatility measured over rolling 1, 3, and 5 year periods. Example: If the risk benchmark has a 1 year standard deviation of 10 then the fund volatility should be no greater than 12.

Rebalancing:

From time to time, market conditions may cause the investment in various asset classes to vary from the established asset allocation targets. To remain consistent with the asset allocation guidelines established by this Investment Policy Statement, the Investment Advisor shall periodically review the Portfolio (s) and each asset class in which the assets are invested.

Liquidity:

No more than 20% of the fund may be invested in illiquid investments.

- Liquid: Defined as strategies that can be liquidated immediately
- Semi-Illiquid: Defined as strategies that can be liquidated within 365 days.
    - Hedge Funds will be considered semi-liquid because of the quarterly or annual redemption windows (after the initial "lock up" period).
- Illiquid: Defined as strategies that cannot be liquidated within 365 days.

Selection & Retention Criterion for Investments:

The Investment Advisor will select Investment Managers according to the following criteria but not limited to:

- The investment style and discipline of the proposed Investment Manager;
- How well each proposed investment complements other assets in the Portfolio;
- The size of the organization as measured by the amount of assets under management with respect to the investment style under consideration;
- Experience of the organization as measured by the tenure of the professionals with respect to the investment style under consideration;
- Past performance, considered relative to other investments having the same investment objective.
- Consideration shall be given to both performance rankings over various time frames and the magnitude and consistency of value-added performance, the amount of risk in relation to an appropriate benchmark and performance in adverse market conditions.
- Evaluation of each Investment Manager's likelihood of significantly outperforming and underperforming a given market index net of fees.

The Investment Advisor has the discretionary authority to employ and or terminate Investment Managers for any reason including the following:

- Investment performance, which is significantly less than anticipated given the discipline employed, and the risk parameters established, or unacceptable justification of poor results;
- Failure to adhere to their stated investment objectives and investment style, including communication and reporting requirements;
- Significant qualitative changes to the Investment Manager's organization.

Monitoring

The overall Portfolio's performance will be reviewed with long term emphasis placed on results achieved over a full market cycle. The investment performance of the Portfolio, asset class composites, and investment managers will be measured against commonly accepted performance benchmarks.

- Total Fund: Net of fees performance of the Portfolio will be compared to the performance of a similarly structured balanced index in line with the target allocation in each strategy.
- Asset class composites: Net of fees performance of the asset class composites will be compared to the performance of a similarly structured index in line with the target allocation in each strategy.
- Investment Managers: Net of fees performance of the asset class composites will be compared to the performance of an appropriate market benchmark. Investment Managers shall be reviewed regularly regarding personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.
- Risk Monitoring: Net of fees performance of the Portfolio will be compared to the risk benchmark to evaluate total fund volatility.

Review and Evaluation of Investment Policies:

The achievement of investment objectives will be reviewed over varying periods of time, but not to exceed annually, by the Finance and Investment Committee. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of this Investment Policy Statement. It is not expected that the investment policies or guidelines will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in this Investment Policy Statement.

Adoption

This Investment Policy Statement is adopted on June 2020 by the Foundation Board of Directors.

Accepted by: (as authorized by the Organization's bylaws)

John Jacinto
John Jacinto (Jun 23, 2020 12:03 PDT)

Board Chair — Date