

**THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE  
INVESTMENT POLICY  
AND ADMINISTRATIVE GUIDELINES  
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## **THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE INVESTMENT POLICY AND ADMINISTRATIVE GUIDELINES**

### **1.0 GENERAL GUIDELINES**

#### **1.1. Scope and Purpose**

- 1.1(1) The purpose of this policy is to provide the framework for the investment management of The University Foundation at Sacramento State's assets.
- 1.1(2) This policy sets forth investment objectives, goals and guidelines that will provide a meaningful basis for the evaluation of fund performance.
- 1.1(3) Investments will be limited to those organizations and instruments which follow policies consistent with those stated within this document and which meet the standards of a prudent investor.

#### **1.2. Responsibilities of The University Foundation at Sacramento State Board of Directors and the Finance Committee**

- 1.2(1) Upon recommendation by the Finance Committee, The University Foundation at Sacramento State Board of Directors will be responsible for ratifying the Spending Policy (4.5) and for reviewing any changes to the Investment Policies and Administrative Guidelines.
- 1.2(2) Authority for implementation of the Investment Policies and Administrative Guidelines will be delegated by the Board of Directors to the Finance Committee.
- 1.2(3) These guidelines will be reviewed annually by the Board of Directors.
- 1.2(4) The Finance Committee shall direct the selection of investment managers to manage The University Foundation at Sacramento State endowment funds, set individual guidelines as necessary, and monitor their performance and adherence to those guidelines.
- 1.2(5) From time to time, the Committee may form Finance Advisory Subcommittees to assist in overseeing specialized areas of investment. The Advisory Subcommittees will function in an oversight and evaluative role, providing recommendations to the Finance Committee in all aspects of investment in their respective specialties.
- 1.2(6) The names and performance of the investment managers shall be reviewed at least annually by the Board of Directors.

### 1.3 Policy Changes

Requests for changes to the following policies shall be submitted to the Finance Committee for review and recommendation to the Board of Directors.

## 2.0 ENDOWMENT FUNDS

Endowment fund means an institutional fund or part thereof that, under the terms of a gift agreement, is not wholly expendable by the institution on a current basis. The term does not include assets that an institution designates as an endowment fund for its own use. Other assets, when recommended by The University Foundation at Sacramento State, may be included in the endowment pool as Funds Functioning as Endowments aka Quasi-Endowments. In these cases, where there is no donor prohibition, the fund principal may be invaded by special request of the fund beneficiary for the purpose of fulfilling the intent and purpose of the original gift.

### 2.1 Mission Statement Alignment

2.1(1) The University Foundation promotes philanthropy to provide a level of excellence at the University beyond what is possible through state funds.

The members of the Board of Directors of The University Foundation accomplish this mission by helping to raise private resources that advance the mission and priorities of the University and serving as ambassadors for philanthropy in the University community.

The Board provides fiduciary stewardship in the prudent investment of its resources, actively reviews its investment exposures relative to their alignment with the University's mission and ensures the integrity of The Foundation through accountability and transparency in its interactions with its donors, beneficiaries, and the broader University community.

2.1(2) It is a core value of the Foundation, to invest the Foundation's assets in a manner consistent with our socially responsible principles, within the guidelines established by the CSU Board of Trustees. As such, the Board of Directors continually strives to strike an appropriate balance between its support for the University's Values and its fiduciary duty to create financial returns in support of the Foundation's mission. The Board of Directors also recognizes that because the Foundation invests mainly in commingled vehicles such as mutual funds, which limit the ability of any individual investor to enforce customized investment parameters, our ability to directly enforce customized investment guidelines may be limited. That said, The Foundation regularly reviews its underlying

investments and directs its Investment Advisor to invest in investment vehicles that are as consistent as possible with the University's social Values, while balancing the financial return objectives of the Foundation, in a manner that advances our mutual long-term interests.

## **2.2 Goals and Objectives**

- 2.2(1) The primary goal is to preserve the real value of the endowment corpus by achieving a growth rate on the principal amount of the endowment over a market cycle (3-5 years) of 300 basis points over the rate of inflation as measured by the CPI, while adhering to our established socially responsible principles.
- 2.2(2) The secondary goal is to provide spendable income equivalent to the spending rate as defined in the Spending Policy.
- 2.2(3) To the extent compatible with objectives 3.1(1) and 3.1(2), the investment strategy should maximize long-term total return, while assuming a prudent level of investment risk.
- 2.2(4) The Advisor will consider investments that support Sacramento State's mission statement, subject to performance history, team stability, portfolio impact, costs relative to similar active and passive funds, liquidity, availability, access, and in consultation with the Finance Committee.

## **2.3 Investment Guidelines**

- 2.3(1) The Finance Committee may invest in pooled funds managed by professional money managers or may retain professional money managers to directly manage all or a portion of The University Foundation at Sacramento State's endowment assets.
- 2.3(2) Each manager is required to conduct the investments with the care, skill, and diligence of a prudent person acting in a like capacity.
- 2.3(3) For separately managed portfolios, managers retained shall operate within the following investment guidelines which are intended to be sufficiently specific to be meaningful, but adequately flexible to be practicable.
- 2.3(4) The Finance Committee will be responsible for the review and acceptance of investment guidelines of pooled fund managers and may provide additional, specific objectives and guidelines to individual managers as appropriate.
- 2.3(5) UFSS will not invest in funds that principally invest in fossil fuels.

2.3(6) UFSS will review its underlying investment exposures annually relative to their alignment with the Values of the University.

## **2.4. General Investment Objectives**

2.4(1) The endowment portfolio is to be invested to maximize long-term total return relative to the risk of its underlying asset allocation. The total return objective (net of fees) for the endowment portfolio, measured over a full market cycle, shall be:

Inflation (as measured by the Consumer Price Index, "CPI") plus 300 basis points and to exceed market performance as defined by a composite benchmark as defined in Appendix B, while adhering to our established socially responsible principles.

## **2.5 Asset Allocation**

2.5(1) The long-term target asset allocation policy for the investment portfolio shall be determined by the Finance Committee to facilitate the achievement of the fund's long-term investment objective within the established risk parameters. Balanced fund managers will be expected to allocate between asset classes to comply with the established ranges for the endowment portfolio, and specialty managers will be expected to allocate within the ranges agreed upon at the time they are hired.

2.5(2) The Investment Manager will have the flexibility to shift the commitment of their managed assets among asset classes, industry sectors and underlying securities to pursue opportunities or to reduce risks presented by long-term secular changes in the capital markets. The asset allocation of the composite endowment portfolio will fluctuate with market conditions and with the decisions made by the individual managers.

2.5(3) The allocation of funds between asset classes may be the single most important determinant of investment performance over the long-term. No single asset class, investment style, or strategy can consistently outperform. Therefore, Foundation assets will be diversified appropriately using Modern Portfolio Theory concepts.

The asset allocation decision significantly affects the long-term rate of return and volatility of the invested assets. The asset allocation should reflect a proper balance of the Foundation's needs for growth and diversification with appropriate risk. The target asset mix, consistent with the achievement of the long-term objectives of the Foundation, implies a balanced investment approach.

The Foundation shall have an overall target asset allocation as defined by Appendix B.

The target mix represents a long-term asset allocation strategy, and the acceptance of risk associated with a “70/30” portfolio. The advisor will determine the timing and degree of portfolio rebalancing.

Companies in the developed countries outside the U.S. are becoming an ever larger and important part of the international economy. Modern Portfolio Theory analysis indicates that this should be recognized in the allowed allocation ranges of an up-to-date Investment Strategy. In addition, Emerging Markets and Real Estate have shown to have lower correlations with domestic equities and can add diversification and some hedge against future inflation.

## 2.6 **Allowable Investments for Separately Managed Accounts**

### 2.6(1) Equities

Purpose: to provide principal appreciation that exceeds inflation

- a) Common stocks exchange traded funds, mutual funds, convertible securities, ADRs, and securities of foreign corporations listed on the New York Stock exchange, American Stock Exchange, NASDAQ, and foreign exchanges.
- b) Domestic and Foreign Equity positions must be marketable and specifically should not include securities with undetermined risk either through leverage or lack of liquidity.
- c) The domestic and foreign equity portfolio assets shall be diversified with no more than five percent of the assets at cost to be invested in the stock of one company.
- d) Equity investments will emphasize long-term investment. The University Foundation at Sacramento State will not generally purchase or sell options. Investment managers, with written permission, may purchase and sell options and/or options on futures on specific securities and market indices as outlined in their specific investment guidelines.
- e) Not more than 30% of the portfolio shall be invested in a single industry, using standard industry codes to define an industry.
- f) A manager may not sell securities short or buy on margin.

## 2.6(2) Fixed Income

Purpose: to provide a hedge against deflation, provide a more stable component of return, and to help reduce the overall volatility of the portfolio.

- a) Fixed Income assets should not consist of more than 10% bonds rated below BBB (non-investment grade by a nationally recognized rating agency) over a four-quarter moving average.
- b) The Foundation's fixed income investments may be held in mutual funds and exchange traded funds. These mutual funds and exchange traded funds hold a large and diversified portfolio of bonds
- c) Bond holdings may be sold or traded before maturity, when more attractive investment alternatives are available.
- d) Fixed income assets should not consist of more than 5% in funds without daily liquidity.
- e) Managers may invest in the following types of fixed income securities:
  - U. S. government and agency bonds
  - U. S. domestic corporate bonds
  - Other "dollar" denominated securities (Yankees, Eurodollars, etc.)
  - Preferred stocks
  - Convertible bonds
  - Supranational Agency Securities
  - Mortgage-backed Securities
  - Collateralized Mortgage Obligations
  - Municipal Bonds
  - High Yield
  - International and Emerging Market bonds
  - Private Credit
- f) Managers who have received written permission from the Finance Committee may purchase and sell options and/or options on futures or specific securities and market indices as outlined in their specific investment guidelines.
- g) Fixed income portfolios should have an average duration of 4 -8 years unless specific written permission is received from the Finance Committee.

### 2.6(3) Cash Equivalents

Purpose: to meet liquidity requirements and as an alternative to other investments when the Investment Manager may feel that other asset classes carry higher than normal risk.

- a) Managers may invest temporary cash in the following types of securities:
  - Money market funds and other commingled vehicles
  - Commercial Paper
  - Bankers acceptance
  - Certificates of deposit not to exceed \$250,000 per issuer
  - Eurodollar certificates of deposit
  - Bank deposit notes
  - U. S. government bills and notes
- b) Except for U.S. Treasury and agency obligations, no more than 10% of the portfolio assets should be invested in the securities of a single issuer.
- c) Commercial paper should be rated A-1 and/or P-1. In addition, the senior long-term debt of the issuer must be rated A or better.
- d) Certificates of deposit must have FDIC insurance and may be traded in the primary and secondary markets.

### 2.6(4) Real Estate

Investments in REITS are allowable, but direct fund investments of real property will be made only when recommended by the Finance Committee, on a case-by-case basis, and in accordance with The University Foundation at Sacramento State's Policy on the Acceptance of Real Property. Each recommendation for acceptance will be reviewed by the Board of Directors.

### 2.6(5) Prohibited Transactions

Direct investment in the following is prohibited without prior approval of The University Foundation Board of Directors:

- a) Short sales
- b) Derivatives
- c) Margin purchases
- d) Acting as an underwriter



- e) Options trading
- f) Purchase of restricted or private placement investments
- g) Purchase of foreign securities, except those trade on an organized exchange
- h) Purchase of securities of the investment manager's firm or affiliated firms without prior Finance Committee approval.
- i) Futures
- j) Commodities
- k) Currency hedges
- l) Working interests in oil or gas wells
- m) Tobacco companies
- n) Any future purchase of fossil fuel investments (excluding broadly diversified mutual funds and ETFs).

These restrictions do not apply to pooled funds in which the endowment invests.

## 2.7 Spending Policy

- 2.7(1) The Foundation's annual distribution for expenditure shall be an amount equal to 4 percent of the average market value of the endowment portfolio. This average market value is computed using the previous 12 quarters of portfolio activity. Income earned in excess of the spending rate may be reinvested in the endowment portfolio. For an endowment fund in existence for fewer than three years, the fair market value of the endowment fund shall be calculated for the period the endowment fund has been in existence. Income available for expenditure is calculated according to the formula in the attached guidelines. (Attachment A)
- 2.7(2) At the time of valuation, no distribution will be made from an individual endowment if its corpus value is equal to or less than 80 percent of its historical gift value. Partial distributions will be allowable as long as the distribution shall not cause the historical gift value to drop below 80 percent. In years when income earned exceeds the annual distribution rate, excess funds will be used to replenish the corpus value up to 100 percent.
- 2.7(3) Under current California law, dividends, interest, rents, realized and unrealized capital gains may be allocated as income subject to The University Foundation's policy for endowment funds.
- 2.7(4) Any change to The University Foundation at Sacramento State spending policy will be communicated to the Vice President, Administration and Business Affairs by April of each fiscal year for budgeting purposes. Income will be distributed annually.

- 2.7(5) Fees assessed by investment managers will be deducted from income earnings.
- 2.7(6) Requests to modify the spending rate will be submitted to the Board of Directors for its approval. The Board has created a presumption of prudence for an appropriation for expenditure between 3 - 7 percent of the moving average market value of the endowment portfolio.

## **2.8 Investment Management**

- 2.8(1) Upon delegation by The University Foundation Board of Directors, the Finance Committee shall direct the selection of professional investment managers to manage endowment funds. The Committee may employ professional consultants to assist in the selection of qualified investment managers. The Committee shall oversee the allocation of investable funds in accordance with the investment policies of The University Foundation at Sacramento State Board of Directors.
- 2.8(2) Acceptable investment managers shall include mutual fund managers, investment and money market fund managers, banks, trust companies.
- 2.8(3) Investment managers shall be directed to adhere to the investment policies. In the case of pooled fund managers, the Finance Committee will be responsible for the review of their investment guidelines and specific acceptance of any areas that may deviate from The University Foundation at Sacramento State Board of Directors' policies.
- 2.8(4) Investment managers, excluding those institutions specifically exempt from registration, shall be registered under the Investment Advisor's Act of 1940. Verification of their registration will be conducted annually.
- 2.8(5) New cash flows to The University Foundation at Sacramento State shall be used first to meet spending requirements and then to rebalance the total fund in accordance with asset allocation policy.
- 2.8(6) Any fees incurred by engaging the services of outside professional managers shall be deducted from endowment fund income.

## **2.9 Performance Reporting**

- 2.9(1) The Finance Committee will report periodically, and in no case less than annually, to The University Foundation at Sacramento State Board of Directors on the performance of invested funds. An annual report will be submitted by the Finance Committee to the Board of Directors and will include the following:

- a) A review of the portfolio's performance relative to the stated general investment goals and objectives.
- b) Measure of total return, including income and capital appreciation for the quarter, fiscal year to date, and over a one, three, and five-year period as available.
- c) Current allocation to each asset class.

2.9(2) In addition to the above report, the Finance Committee, with the assistance of professional consultants as needed, will be responsible for reviewing the following:

- a) Comparison of the managers' performance and a universe of managers with similar investment styles.
- b) Comparison of the managers' performance and standard indices.
- c) Comparison of the total return of the fund with a market index composed of indices weighted by the actual portfolio asset-mix and/or weighted to match the long-term asset allocation targets.
- d) A review of the underlying indirect exposures in the portfolio will be reviewed by the Finance Committee on a regular basis to reaffirm or challenge such exposures relative to their alignment with the values of the University.

## 2.10 Investment Manager Responsibilities

2.10(1) Investment Managers are expected to observe the specific limitations, guidelines, and philosophies stated herein or as expressed in any written amendments or instructions. Acceptance of the responsibility of managing funds for The University Foundation at Sacramento State Board of Directors will constitute a ratification of this statement.

2.10(2) Investment managers will be directed to produce the performance data outlined above at least quarterly in writing.

2.10(3) Investment managers will put in writing (Appendix B), to the Finance Committee, any requests for specific exceptions to these policies and guidelines.

2.10(4) The investment managers must be prepared to meet with the Finance Committee at least quarterly to discuss the fund performance and the future performance of the fund.

### 3.0 CURRENT USE FUNDS

This policy is intended to govern current restricted and unrestricted funds of The University Foundation at Sacramento State. These funds are defined as short-term investments whereby the entire principal and any income may be expended and include Current Use Funds and Liquidity Funds. The investment strategy reflects the short-term nature of the stewardship The University Foundation at Sacramento State has over the assets, and the need for preservation of capital and liquidity.

#### 3.1 Goals and Objectives

- 3.1(1) To maintain safety of principal.
- 3.1(2) To meet the liquidity needs of the beneficiary programs.
- 3.1(3) The rate of return objective is to perform comparably with readily available short-term investment alternatives. For the Current Use Funds, the Bloomberg U.S. Aggregate 1-3 Years Index is appropriate for measuring the performance. For the Liquidity Funds, the 90-day Treasury Bill Index is appropriate for measuring relative performance.

#### 3.2. General Investment Guidelines

- 3.2(1) The University Foundation at Sacramento State may invest in pooled funds managed by professional money managers or may retain professional money managers to directly manage all or a portion of the foundation's assets.
- 3.2(2) Any pools selected or managers retained shall operate with the following investment guidelines. The Finance Committee of The University Foundation at Sacramento State may provide additional, specific objectives and guidelines to individual managers as appropriate.

#### 3.3 Allowable Investments

##### 3.3(1) Fixed Income

- a) Assets may be invested in the following types of debt securities:
  - U. S. government and agency bonds
  - U. S. domestic corporate bonds
  - Other "dollar" denominated securities (Yankees, Eurodollars, etc.)
  - Preferred stocks
  - Convertible bonds (when viewed as debt issue)

- Supranational Agency Securities
  - Mortgage-backed Securities
  - Collateralized Mortgage Obligation
- b) Except for U.S. Treasury and agency obligations, no more than 5% of the portfolio assets should be invested in the securities of a single issuer.
- c) Normally, the portfolio should not purchase securities rated less than A or below investment grade by a nationally recognized rating agency. Should an issue receive a split rating, the lower rating will apply. Each investment manager may be given permission in their specific guidelines to include some bonds with a BBB rating, but in no event should more than 10% of the portfolio be invested in securities rated BBB.
- d) The average duration of the portfolio shall be between 0-3 years. However, any specific bond can have a longer or shorter duration.
- e) Fixed income securities must be marketable and specifically should not include securities with undetermined risk either through leverage or option characteristics or lack of liquidity.
- f) Managers who have received written permission from the Finance Committee may purchase and sell options and futures on specific securities and market indices as outlined in their specific investment guidelines.
- g) Investment managers, with written permission, may place funds in commingled investment vehicles, but the guidelines discussed herein should generally apply to the pools as well.

### 3.3(2) Cash Equivalents

- a) Managers may invest temporary cash in the following types of securities:
- Money market funds and other commingled vehicles
  - Commercial Paper
  - Bankers acceptance
  - Certificates of deposit not to exceed \$250,000 per issuer
  - Eurodollar certificates of deposit
  - Bank deposit notes
  - U. S. government bills and notes

- b) Except for U.S. Treasury and agency obligations, no more than 5% of the portfolio assets should be invested in the securities of a single issuer.
- c) Commercial paper should be rated A-1 and/or P-1. In addition, the senior long-term debt of the issuer must be rated A or better.
- d) Bankers acceptances and certificates of deposit should only be purchased from institutions whose equity is 5% or more of its assets and it is operating profitably.
- e) Investment managers, with written permission, may place funds in commingled investment vehicles, but the guidelines discussed herein should generally apply to the pools as well.

### **3.4 Disbursement Guidelines**

- 3.4(1) All income in excess of expenses will be allocated according to The University Foundation at Sacramento State policy.
- 3.4(2) Negative fund balances may be assessed an interest charge equivalent to the interest allocation rate for that period.

### **3.5 Investment Management**

- 3.5(1) Upon delegation by The University Foundation at Sacramento State Board of Directors, the Finance Committee shall direct the selection of professional investment managers and shall oversee the allocation of investable funds in accordance with the investment policies of The University Foundation at Sacramento State.
- 3.5(2) Acceptable investment managers shall include mutual fund managers, investment and money market fund managers, banks and trust companies.
- 3.5(3) Investment managers shall be directed to adhere to the Foundation's investment policies.
- 3.5(4) Investment managers, excluding those institutions specifically exempt from registration, shall be registered under the Investment Advisor's Act of 1940. Verification of their registration will be conducted annually.
- 3.5(5) The names of investment managers selected by the Finance Committee will be reviewed at least annually by the Board of Directors.
- 3.5(6) Any fees incurred by engaging the services of outside professional investment managers shall be deducted from investment income.

### **3.6 Performance Reporting**

- 3.6(1) The Finance Committee will report periodically, and in no case less than annually, to The University Foundation at Sacramento State Board of Directors on the performance of invested funds. An annual report will be submitted by the Finance Committee to the Board of Directors and will include a review of the portfolio's performance relative to the stated general investment goals and objectives and standard indices.

### **3.7 Investment Manager Responsibilities**

- 3.7(1) Investment Managers are expected to observe the specific limitations, guidelines, and philosophies stated herein or as expressed in any written amendments or instructions. Acceptance of the responsibility of managing funds for The University Foundation at Sacramento State will constitute a ratification of this statement.
- 3.7(2) Investment managers will be directed to produce performance data at least quarterly in writing to the Finance Committee. Data is to include comparisons with short-term indices such as the Consumer Price Index, 90-day Treasuries, and the Merrill Lynch 1 to 3-year Treasury index.
- 3.7(3) Investment managers will put in writing to the Finance Committee any requests for specific exceptions to these policies and guidelines.
- 3.7(4) The investment managers must be prepared to meet with the Finance Committee at least quarterly to discuss the fund performance and the future performance of the fund.

## **4.0 CHARITABLE TRUSTS**

It will be the purpose of these Investment Guidelines to provide a framework for the management of The University Foundation at Sacramento State charitable trust assets where The University Foundation at Sacramento State serves as trustee. The following policies will broadly define investment objectives and the duties and responsibilities of the investment professionals hired by The University Foundation at Sacramento State. The Finance Committee will provide additional instructions specific to the terms of each gift vehicle in consultation with the investment manager.

The University Foundation at Sacramento State has established Guidelines for the Solicitation and Acceptance of Planned Gifts which are separate from these investment policies. Charitable trusts refer to Charitable Remainder Unitrusts and Charitable Remainder Annuity Trusts; since the University Foundation does not normally serve as

trustee of Charitable Lead Trusts, this policy does not address them. Similarly, Pooled Income Funds, which are trusts that would be administered by an external trustee, are not covered by these policies. Charitable Gift Annuities are contracts administered and managed by the California State University Foundation and are covered by the policies for that entity.

#### **4.1 Goals and Objectives**

4.1(1) It will be the primary goal of The University Foundation at Sacramento State to establish objectives that are consistent with the donor's intent, meet the income needs of the beneficiary, and protect the long-term interest of the charitable remainder.

4.1(2) Investment Objectives:

As each charitable trust is a separate legal entity with unique terms, the investment objectives will vary with the specific conditions of the trust, such as payout requirement, age of income beneficiary, tax considerations, and total return or net income restrictions.

- a) The primary objective is to seek capital appreciation with emphasis on long-term total return while assuming a prudent level of investment risk.
- b) The secondary objective is to preserve capital while seeking spendable income equivalent to or exceeding the amount which will be paid to the income beneficiaries.

#### **4.2 General Investment Guidelines**

4.2(1) The University Foundation at Sacramento State may invest trust assets in pooled funds managed by professional money managers or may retain professional money managers to directly manage all or a portion of the Foundation's trust assets.

4.2(2) Diversification will depend on the size of the assets and objectives of the trust.

4.2(3) Any pools selected or managers retained shall operate within the following guidelines, although the Finance Committee may provide additional, specific objectives and guidelines to individual managers as appropriate.

#### **4.3 Asset Allocation**

4.3(1) Specific asset allocation targets will be based on an appraisal of the



Trust's liquidity and income needs as well as probable asset returns and inflation.

- 4.3(2) Portfolios will generally be divided into five diversified asset classes within the recommended ranges listed on page 23 in Appendix B.

#### 4.4 **Allowable Investments**

- 4.4(1) Common stocks, exchange traded funds, mutual funds, convertible securities, ADRs, and securities of foreign corporations listed on the New York Stock exchange, American Stock Exchange, NASDAQ, and foreign exchanges.
- a) Purchases for equity positions must be marketable and specifically should not include securities with undetermined risk either through leverage or lack of liquidity.
  - b) The equity portfolio assets shall be diversified with no more than five percent of the assets at market to be invested in the stock of one company.
  - c) Equity investments will emphasize long-term investment.
  - d) The Foundation will not generally purchase and sell options and futures. Investment managers will require written permission from the Finance Committee to participate in these activities.
  - e) Not more than 30% of each portfolio shall be invested in a single industry. The definition for an industry shall follow those used to classify the Fortune 500 firms.
  - f) A manager may not sell securities short or buy on margin.
- 4.4(2) Fixed Income - to provide a hedge against deflation, provide a more stable component of return, and to help reduce the overall volatility of a portfolio.
- a) The emphasis for fixed income holdings shall be safety of principal, quality and call protection.
  - b) Except for U.S. Treasury notes, the fixed income portfolio assets shall be diversified with no more than five percent of the assets at market to be invested in the securities of a single issuer.

- c) Normally, the portfolio should not purchase securities rated less than A or below investment grade by a nationally recognized rating agency. Each investment manager may be given permission in their specific guidelines to include some bonds with a BBB rating, but in no event should more than 10% of the portfolio be invested in securities rated BBB.
- d) Bond holdings may be sold or traded before maturity, when more attractive investment alternatives are available.
- e) Fixed income assets should not consist of more than 5% in funds without daily liquidity.
- f) Managers may invest in the following types of fixed income securities:
  - U. S. government and agency bonds
  - U. S. domestic corporate bonds
  - Other "dollar" denominated securities (Yankees, Eurodollars, etc.)
  - Preferred stocks
  - Convertible bonds (when viewed as debt issue)
  - Supranational Agency Securities
  - Mortgage-backed Securities
  - Collateralized Mortgage Obligations
  - Private Credit

#### Cash Equivalents

- a) Managers may invest temporary cash in the following types of securities:
  - Money market funds and other commingled vehicles
  - Commercial Paper
  - Bankers acceptance
  - Certificates of deposit not to exceed \$250,000 per issuer
  - Eurodollar certificates of deposit
  - Bank deposit notes
  - U. S. government bills and notes
- b) Except for U.S. Treasury and agency obligations, no more than 5% of the portfolio assets should be invested in the securities of a single issuer.
- c) Commercial paper should be rated A-1 and/or P-1. In addition, the senior long-term debt of the issuer must be rated A or better.

Bankers acceptances and certificates of deposit should only be purchased from an institution whose equity is 5% or more of its assets and it is operating profitably.

#### **4.5 Disbursement Guidelines**

4.5(1) Maximum payout guidelines for charitable trusts where the Foundation has fiduciary responsibility shall be set forth in the Guidelines for the Solicitation and Acceptance of Planned Gifts.

4.5(2) The Finance Committee shall periodically review these guidelines for appropriateness.

#### **4.6 Investment Management**

4.6(1) Upon delegation by the governing board of The University Foundation at Sacramento State, the Finance Committee shall direct the selection of professional investment managers to manage trust funds where the Foundation serves as trustee. The Committee shall oversee the allocation of investable funds in accordance with the investment policies of The University Foundation at Sacramento State.

4.6(2) Acceptable investment managers shall include mutual fund managers, investment managers, banks, trust companies, and money market fund managers.

4.6(3) Investment managers, excluding those institutions specifically exempt from registration, shall be registered under the Investment Advisor's Act of 1940.

#### **4.7 Performance Measurement**

4.7(1) The Finance Committee will periodically, but no less than annually, review the performance of invested trust funds where The University Foundation at Sacramento State serves as trustee.

4.7(2) The review will include the following:

- a) A review of the investment manager's performance relative to the investment goals and against standard indices as defined in the specific guidelines negotiated between the Committee and the money manager.
- b) Measure of total return, including income and capital appreciation for the quarter, year to date, and over a one-three-five-and ten-year period as applicable.

- c) Current allocation to asset classes.

#### **4.8 Performance Reporting**

- 4.8(1) Investment Managers shall report quarterly in writing to The University Foundation at Sacramento State on the performance of invested funds. Performance should be stated relative to the specific goals, objectives, and payout requirements of the charitable gift vehicle and include the performance data outlined above.
- 4.8(2) The Finance Committee will report periodically, but not less than annually, to the Board of Directors on the performance of invested trust funds where The University Foundation at Sacramento State serves as trustee.
- 4.8(3) The investment managers must be prepared to meet with the Finance Committee at least quarterly to discuss specific account performance and other topics pertinent to the management of the assets.

#### **4.9. Management Fees**

- 4.9(1) Any fees which are incurred by engaging the services of outside professionals (i.e. investment fees, custodial fees, tax return preparation service, real estate appraisals, etc.) shall be considered a cost to the trusts and assessed under the guidelines of the California Revised Uniform Principal and Income Act.

## Appendix A

### Formula for Disbursement of Endowment Income

- A. Calculate the unit value of the portfolio on a monthly basis by dividing the market value of the portfolio by the total number of units held by the endowment funds.
- B. Calculate the average unit values for 12 quarters.
- C. Multiply the number of units for the individual endowment fund by the average unit value to obtain the average market value for the individual endowment fund.
- D. Multiply the average market value for the fund by the spending rate to obtain the actual dollar distribution to the endowment fund.

Example:

Market value of the portfolio = \$225,000

Total number of units = \$200,000

- A. Unit value of the portfolio = \$1.125 (\$225,000/\$200,000)
- B. Average unit market value = \$1.11  $\frac{(1.125 + 1.05 + 1.15 + 1.10)}{4}$   
(this would have 12 values)
- C. The Smith fund holds 50,000 units in the endowment portfolio. The average market value of this fund is \$55,500.

50,000 units x \$1.11 average unit market value = \$55,500

- D. The income available for expenditure is computed by multiplying the average market value of the fund times the spending rate.

\$55,500 x .05 = \$2,775.00

## **Appendix B**

### **SUMMARY** **INVESTMENT POLICY STATEMENT** University Foundation at Sacramento State (UFSS)

<b><u>Client's Name:</u></b>	University Foundation at Sacramento State
<b><u>Portfolio Account Detail:</u></b>	University Foundation at Sacramento State Endowment
<b><u>Investment Objective:</u></b>	Growth and Capital Preservation are the main objectives to support the sustainability of regular distributions and longevity of UFSS's mission
<b><u>Withdrawal Requirement:</u></b>	Annual withdrawals for the fulfillment of endowed scholarships and programs as specified and intended by Foundation donors.
<b><u>Time Horizon:</u></b>	Overall portfolio is allocated with a long-term time-horizon in mind. As an endowment, the Foundation's horizons spans to perpetuity.
<b><u>Risk Tolerance:</u></b>	Moderately Aggressive
<b><u>Target Return:</u></b>	Generate a return in excess of the blended portfolio benchmark over a complete market cycle
<b><u>Target Allocation:</u></b>	70% Growth and 30% Capital Preservation
<b><u>Evaluation Benchmark:</u></b>	The passive indices in similar weights to the target asset allocation.

## **INVESTMENT POLICY STATEMENT**

University Foundation at Sacramento State, Inc.

This policy statement outlines the assumptions and understandings under which Sand Hill Global Advisors, LLC. (the “Advisor” or “SHGA”) is to manage the capital account of University Foundation at Sacramento State (UFSS). The content herein has been composed based upon meetings with the Board of Directors and staff in which discussions covered UFSS’s goals, attitudes, expectations, risk tolerance, desires for liquidity, and present and future cash flow requirements.

It is agreed that the Advisor will meet with the Finance Committee on a quarterly basis and with the Board of Directors on an annual basis to report on the status of the portfolio and to receive and provide information that will aid in the management of the portfolio. This investment policy statement will be reviewed at least annually as to its appropriateness given any significant changes in UFSS’s needs or in light of significant shifts in the economy or the investment markets. Day-to-day contact with UFSS will be made via telephone and e-mail.

### **I. ACCOUNT CIRCUMSTANCES**

The investments in this capital account represent a major asset of UFSS, and as such, are intended to be managed in a manner that will promote their growth in excess of inflation and capital preservation over the long-term. In 2022, at the direction of the Office of the Chancellor, the UFSS Board divested from direct fossil fuel investments. In 2025, at the direction of UFSS Board, the Foundation adopted a statement of socially responsible principles to actively align its investment exposures with the University’s core Values.

### **II. INVESTMENT OBJECTIVES**

UFSS seeks to achieve growth of the portfolio at a moderate rate in excess of inflation. Preservation of capital is an important consideration; therefore, portfolio volatility should be held similar to that of the evaluation benchmark as a whole, over a complete market cycle.

#### **1. Portfolio Return Objectives -**

- **Total Portfolio Return:** Achieve a time-weighted rate of return of 3.0% over CPI, after fees and program costs, while adhering to our established socially responsible principles. This return will be pursued through a diversified and strategically integrated approach to investment management, providing an average annual return that will be measured over a complete market cycle which is defined as five years.
- **Blended Benchmark Return:** Over rolling five-year cycles, to achieve a return that exceeds the Blended Benchmark, net of fees with similar risk, with the understanding that from time to time, the performance of certain socially responsible investment vehicles may deviate from such established indices.

2. **Portfolio Risk Tolerance:** The risk to the portfolio must be moderate, since the portfolio provides a source of funds that allows UFSS to perpetuate its mission.

- 3. **Withdrawal Requirements:** Annual withdrawals for the fulfillment of endowed scholarships and programs as specified and intended by Foundation donors. UFSS will coordinate with SHGA on the specific needs as they are known.
- 4. **Time Horizon:** Overall portfolio will be allocated with a long-term time-horizon in mind. As an endowment, the Foundation’s horizons spans to perpetuity.
- 5. **Tax Considerations:** None, since this organization is tax exempt.
- 6. **Illiquidity:** The overall portfolio should maintain at least 90% daily liquidity.

**III. POLICY & ASSET ALLOCATION**

- 1. **Diversification** - Given the objective for moderate risk with growth, the portfolio will be managed as a diversified portfolio. We believe that diversification of assets is a sound investment policy and that allocation of assets across various sectors as well as types of securities will minimize risk while improving performance. Accordingly, Sand Hill Global Advisors will at no time invest more than 15% of the portfolio with a single active fund family.

**Investment Vehicles** - The portfolio’s investments will be allocated over various asset classes, either directly or through pooled or commingled investment accounts (mutual funds and index funds), that might include domestic and international equities, bonds, real estate, alternative investments, and cash or cash equivalents. With each asset class, Sand Hill Global Advisors will weigh factors including performance history, team stability, portfolio impact, expense, market efficiency, liquidity, transparency of information, diversification and mission to determine investments in UFSS’s best interests.

2. **Asset Allocation:**

	<b><u>Range</u></b>	<b><u>Target</u></b>	<b><u>Range</u></b>
<b>TOTAL EQUITY</b>	<b>52 %</b>	<b>66%</b>	<b>80%</b>
<b>TOTAL FIXED INCOME</b>	<b>15%</b>	<b>21%</b>	<b>35%</b>
<b>REAL ASSETS</b>	<b>0%</b>	<b>4%</b>	<b>8%</b>
<b>ABSOLUTE RETURN</b>	<b>0%</b>	<b>7%</b>	<b>15%</b>
<b>CASH/CASH EQUIVALENTS</b>	<b>0%</b>	<b>2%</b>	<b>15%</b>

- Generally, the allocation will be within the ranges shown above; however, SHGA is permitted to have a more defensive position that may result from significant cash inflows.
- 3. **Rebalancing:** The portfolio will be reviewed regularly by SHGA and rebalanced whenever the weighting of a major asset class deviates or a tactical opportunity presents itself.



## **IV. INVESTMENT GUIDELINES**

Sand Hill Global Advisors, LLC may utilize an appropriate combination of index funds, mutual funds and ETF's as well as specialized third party, commingled fund or mutual fund alternatives to implement the asset allocation. Third-party offerings will be used to enhance the portfolio's diversification in certain asset classes that require specialized expertise or where liquidity may be limited. In each case, the potential for added value, institutional share class fees and cost effectiveness will be a major consideration. Such categories will include passive strategies such as index funds or exchange-traded funds (ETFs), and active strategies such as international, emerging markets or REIT mutual funds.

### **1. Individual Equity Securities in the Direct Account:**

- UFSS will not utilize individual equity securities in its investment allocation.

### **2. Individual Fixed Income Securities in Direct Accounts;**

- With the exception of U. S. Government securities and Federal Government Agency securities, no more than 10% at cost of the portfolio may be invested in the securities of a single issuer.
- Corporate issuers will be U. S. or multinational corporations.
- Up to 10% of the total account may be invested in below investment grade securities, commonly referred to as "high yield debt" or its risk equivalent, but only through adequately diversified investment vehicles.

### **3. Commingled Funds, Mutual Funds and Index Funds:**

- The fund selection process will incorporate criteria such as investment style and process, experience of the investment team, organizational stability and performance analysis such as long-term, risk-adjusted returns, manager tenure, relative performance in up and down markets, consistency of management style, and relative expense ratios. Special care will be taken in the selection of the appropriate type of security or class of shares to minimize the expense ratio and transaction costs. When appropriate, negotiations will occur with custodians for the waiver of loads, minimums, and transaction fees.

The fund selection process will consider investments that support Sacramento State's mission statement, subject to performance history, team stability, portfolio impact, cost relative to similar active and passive funds, liquidity, availability, access, and in consultation with the Finance Committee.

### **4. Real Estate:**

- The real estate portion may be comprised of private & publicly held real estate investments.

#### **5. Alternative Investments:**

- Alternative investments will be broadly defined, but not limited to, as investments in absolute return funds, gold, real return strategies, venture capital, private equity, and other hedged investment vehicles. These categories are to be implemented only through diversified investment vehicles. In the case of absolute return private partnerships, the diversification should be achieved through a “fund of funds” approach.
- The Finance Committee’s approval will be required prior to any purchase of an alternative investment that does not have daily liquidity.

#### **6. Cash/Cash Equivalents:**

- Cash equivalent positions will be instruments with ratings of A-2, P-2 or higher. U.S. Treasury Bills, Eurodollar Certificates of Deposit, time deposits, money market funds, and repurchase agreements are acceptable instruments.

### **V. BROKERAGE AND PROXY POLICY**

- All transactions effected for UFSS will be “subject to the best price and execution.” Securities and cash will be held in custody at Fidelity Investments.
- Proxy voting has been delegated to SHGA. SHGA has retained Broadridge to vote proxies in the best interest of the shareholders.

### **VI. CONTROLS AND MONITORING**

- As scheduled, the UFSS Finance Committee will review the investment performance of SHGA and the individual managers (retained by SHGA) in the portfolio with respect to the risk, return, and mission-related objectives established by UFSS’s Board. The review may include topics such as the overall business management, organizational changes and other relevant factors.
- SHGA will provide on a regular basis, and in response to ad hoc Board requests, elevated reporting on underlying exposures to geographies, sectors, industries and individual securities as determined by the Finance Committee.
- The Finance Committee will regularly review and report out to the Board any findings as it pertains to matters of mission alignment. Should such matters be determined by the Board of Directors as requiring mitigation, the Finance Committee will provide direction to the Advisor, who will reasonably address within the constructs of the Foundation’s implementation approach.

- The Advisor will work with the Finance Committee to develop detailed reporting on geographic, sector and industry exposures on a regular basis as well as provide individual corporate equity and bond exposures on an annual basis.
- The Internal Accounting Team will increase the level of reporting and the approachability of our messaging in our external communications and annual audited financial statements.

## **APPENDIX C**

### **1. Benchmark Composition**

The Blended Benchmark will be used for the total portfolio review and to review SHGA. Individual asset classes will be reviewed using the indices most appropriate and assigned to each manager or investment style.

The Blended Benchmark is composed as follows:

<b><u>Asset Class</u></b>	<b><u>Index</u></b>	<b><u>Weight</u></b>
<b>Equity</b>		
Domestic Large Capitalization	S&P500 Index	40%
Domestic Small Capitalization	Russell 2000 Index	11%
Foreign	MSCI All-Cap World Index excl. USA	15%
<b>Fixed Income</b>	Bloomberg U.S. Aggregate Index	21%
<b>Absolute/Real Return Strategy</b>	<b>Bloomberg</b> 1-3 Year Aggregate Index	7%
<b>Real Estate</b>	NAREIT Index	4%
<b>Cash/Cash Equivalents</b>	U.S. T-Bill 30-day Index	2%

*Prior to 6/30/2022, the blended benchmark consisted of the following indices: 36% S&P 500 Index, 11% Russell 2000, 15% MSCI All-Cap World Index excl. USA, 21% Barclays US Aggregate Index, 7% Barclays 1-3 Year Aggregate Index, 4% NAREIT Index, 4% Bloomberg Commodities Index, and 2% US T-Bill 30-day Index. Prior to 3/31/2020, the blended benchmark consisted of the following indices: The equity benchmark consisted of 30% S&P 500 Index; 9% Russell 2000 Index; 13% MSCI All-Cap World Index excl. USA. Prior to 12/31/2016 the equity benchmark consisted of 100% MSCI ACWI. The fixed income benchmark consisted of 30% Barclays U.S. Aggregate Index. The alternatives index consisted of 8% Barclays 1-3 Year Aggregate Index; 4% NAREIT Index; 4% Bloomberg Commodity Index. The cash benchmark consisted of 2% U.S. T-Bill 30-day Index.*