



The University Corporation
Research, Investments and Commercial Services
California State University, Northridge

INVESTMENT POLICY

I. PURPOSE

The purpose of this policy is to establish a clear understanding between The University Corporation (Corporation) at California State University Northridge and Investment Manager(s), of the investment policies and objectives for managing the Corporation's asset portfolio. This statement outlines an overall philosophy that is sufficiently specific in expressing performance objectives to guide the Investment Manager, yet sufficiently flexible to accommodate changing economic conditions and market dynamics. This policy establishes the investment restrictions placed upon the Investment Manager and outlines procedures for performance review. These same guidelines apply to that portion of the asset portfolio self-directed by the Corporation Investment Committee or any student-managed funds under its direction.

II. OBJECTIVE

The primary investment objective is to achieve risk-adjusted real returns necessary to preserve and grow capital and to support the long term and short-term spending requirements of the Corporation. The Corporation and its Investment Managers should properly balance the following overall objectives:

- A. Liquidity. The Corporation's investment portfolio will remain satisfactorily liquid to enable it to meet anticipated operating and cash flow requirements, which are to be analyzed continuously.
- B. Return on Investment. The investment portfolio will be designed to attain a market rate or better rate of return throughout a full economic cycle.
- C. Preservation of Capital. Through the diversification of assets and the setting of specific quality standards, appropriate limitations to protect the portfolio will be placed on anticipated risks associated with the implementation of the return on investment objective and the targeted asset allocation.

III. SCOPE

This policy is applicable to all funds held by the Corporation in the long-term and short-term investment pools.

- A. Long-term investment pool. This pool includes all endowment and certain reserve funds and is invested with a focus on long-term growth of capital.
- B. Short-term investment pool. This pool represents deposits held in trust for agency and workshop accounts, and reserve funds potentially needed within the next three years. The primary goal for the short-term pool is preservation of capital.



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The funds entrusted to the Corporation will be pooled in an actively managed portfolio, except when precluded by a donor or granting agency. The Corporation will follow investment standards described in the Uniform Prudent Management of Institutional Funds Act (California Probate Code Section – UPMIFA -- 18501-18510, January 2009).

IV. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Corporation will transact business only with banks, Trust Companies, credit unions, State Treasurer's Office, registered investment securities dealers, and the U.S. Securities and Exchange Commission (SEC) Registered Investment Advisors.

The Chief Financial Officer (CFO) will examine financial institutions which seek to perform business with the Corporation to assess whether the participating financial institutions are satisfactorily capitalized, are market makers in securities appropriate to the Corporation's financial investment universe, and agree to comply by the conditions set forth in this Investment Policy. The CFO will send a copy of the current statement of investment policy to all dealers approved to do business with the Corporation. Confirmation of the dealer's understanding of the Corporation's investment policy will be provided in writing by the dealer.

Any authorized investments (contained in Section VIII) can be purchased directly from the issuer.

All financial institutions, Trust Companies, Registered Investment Advisors, and/or broker/dealers who seeking to qualify as agents to perform investment transactions for the Corporation will supply the CFO the following:

- A. Audited financial statement
- B. Proof of National Association of Security Dealers certification, active RIA status, or other appropriate documentation, state registration, SEC registration
- C. Completed broker/dealer questionnaires or corresponding document.
- D. Certificate of review and understanding of The University Corporation investment policy.

A review of the financial condition and registration of the qualified agents will be conducted by the CFO at least every three (3) years. This report will be reviewed to the Investment Committee.

V. ASSET GUIDELINES AND TARGET ALLOCATION

The University Corporation has a wide range of assets under its control including, for example, retail establishments, food services, licensing, residential real estate, and investments in University facilities. In addition, there are assets which are directly under this investment policy.

An optimal asset allocation for the investment funds should consider and reflect the broader range of all assets and earnings streams held by the corporation. The optimal allocation should include low and high percentages as well as a targeted percentage for each asset class.



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Investments by the Corporation in University facilities are not part of the investment portfolio assets because (a) there is no credible benchmarking for returns, (b) there is no legitimate opportunity to sell those assets, and (c) there is relatively low risk associated with these cash flows. Similarly, direct investments in commercial and residential real estate are not part of the investment portfolio assets because they (a) fill a demonstrated programmatic need on campus, (b) are part of a long-term acquisition strategy by the University, and (c) are not highly liquid. However, investments in University facilities and direct investments in commercial and residential real estate should be considered when determining optimal asset allocations for the investment portfolio. Accordingly, below is a set of investment portfolio categories and asset allocation targets to follow:

A. *Long-term investment pool* – The minimum and maximum guidelines for each investment category and the associated target allocation will typically be:

	<u>Minimum %</u>	<u>Maximum %</u>	<u>Target Allocation</u>
Cash & Cash Equivalents*	0%	30%	5%
Fixed Income	10%	50%	20%
Equities	25%	85%	75%
Alternative Investments-non-Public Safety Building	0%	15%	0%

* Cash equivalents are defined as less than one-year maturities. Fixed income investments can be invested in cash equivalents as necessary.

B. *Short-term investment pool* – The minimum and maximum guidelines for each investment category and the associated target allocation will typically be:

	<u>Minimum %</u>	<u>Maximum %</u>	<u>Target Allocation</u>
Cash & Cash Equivalents*	10%	90%	50%
Fixed Income	10%	60%	50%
SWIFT (System-Wide Investment Fund)	0%	90%	0%

* Cash equivalents are defined as less than one-year maturities. Fixed income investments can be invested in cash equivalents as necessary.

The investment portfolios will be rebalanced to these target percentages at least annually, or quarterly if there is a five percent (5%) or greater variance from target. Further, these targets will be evaluated annually by the Investment Committee or its appointee.

In the event of wide financial market fluctuations, the actual investment allocation mix can vary from the target mix with the understanding that the investment pool will be rebalanced as normal market conditions return.



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VI. INVESTMENT GUIDELINES

A. Overall Guidelines

1. The Corporation prohibits investments that jeopardize the non-profit status of the Corporation or unduly jeopardize the safety of principal. Unless specifically authorized by written instruction to the Investment Manager, the following types or methods of investments are expressly prohibited:
 - a. Trading in securities on margin;
 - b. Trading in commodity futures;
 - c. Investments in working interests in oil or gas wells;
 - d. The purchase of “puts” and “calls” and “straddles”
 - e. The sale and purchase of warrants and options without prior approval;
 - f. Selling short;
 - g. Direct investment in derivatives
2. Unrestricted donations of marketable securities are to be liquidated in an orderly fashion unless they conform to the investment model as determined by the Investment Manager and/or Investment Committee
3. Mutual funds and Exchange Traded Funds (ETF) are permitted investments so long as their underlying investments meet the criteria set forth in this policy.
4. This Investment Policy is responsive to special requirements placed on assets by donors, granting agencies, legal agreements or other documented means within reason as determined by the Corporation Board.

B. Cash Equivalents Category Guidelines

Cash equivalent investments are held for short-term liquidity needs of TUC, and should be readily available for withdrawal to satisfy anticipated spending needs of the Corporation.

The following investments are acceptable:

1. Certificates of Deposit (maximum \$100,000 per institution). These investments will be limited to licensed (Federally chartered and insured) financial institutions.
2. Commercial Paper. These investments generally will be limited to ratings A-1 (or better) by Standard and Poor's or P-1 (or better) by Moody's.
3. U.S. Government and California State Government guaranteed securities, as well as U.S. Treasury Bills.



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4. Short term investment accounts with a maximum maturity of two years for securities held. These accounts will be limited to registered investment securities dealers.
5. Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.
6. Money Market Accounts. These investments will be limited to licensed (federally chartered and insured) financial institutions.
7. Mutual Funds and ETFs investing exclusively in Cash Equivalents.

C. Fixed Income Category Guidelines

Fixed Income investments are held for the purpose of diversifying against more volatile asset classes such as equity and alternative investments. Fixed income instruments are expected to provide relatively more principal stability than other risk assets, and are held with the objective of generating a reasonable level of income given the prevailing interest rate environment at the time of purchase.

1. Purchases of fixed income securities will be limited to U.S. Treasury or federal agency obligation, State of California obligations or those U.S. corporate bonds with ratings as prescribed below, or Mutual Funds or ETFs investing exclusively in such fixed income securities.
2. U.S. corporate bonds with a maximum maturity of ten years and rated a minimum of “BBB” with the weighted average of all fixed income to be a minimum of “A” or its equivalent by a nationally recognized rating (Standard and Poor’s, Moody’s and Fitch) service. Typically a maximum of 30% of the long-term portfolio and 50% of the short-term portfolio may be invested in these bonds (or corresponding Mutual Funds or ETFs). In the event a bond is downgraded below the minimum acceptable bond rating, the Investment Manager may continue to hold such bond until it is deemed advantageous to dispose of the bond, but under no circumstances should it take longer than six months.
3. With regard to concentration by issuer, there are no limitations placed on investments in U.S. government or federal agency guaranteed investments. No more than 40% of the total investments in government fixed income vehicles may be in State of California bonds. For U.S. corporate bonds, however, investments in any one issuer should:
 - a. Not represent more than 10% of the fixed income category;
 - b. Not be more than 5% of the security’s total issue and,
 - c. Be part of an issue worth at least \$50 million par value.

D. Equity Category Guidelines



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Equity investments are held with the objective of growing at a rate exceeding inflation over market cycles through a combination of capital appreciation and dividend income. Equity investments are understood to exhibit a relatively high level of volatility, and as such are to be included in TUC's portfolio only if they can be held for longer periods of time- generally 3-5 years at minimum.

1. The equity portfolio should be well diversified to avoid undue exposure to any single economic factor, industry sector, or individual security.
2. Equities should be publicly traded on national exchanges. Mutual Funds may be purchased directly from the fund sponsor. International stocks may be purchased through American Depository Receipt (ADR) securities, mutual funds, or ETFs.
3. The holding of one firm's common stock is not to exceed 5% of that firm's total common stock outstanding.
4. No more than 7.5% of the equity portfolio should be invested in the stock of a single company. No more than 50% of the equity portfolio should be invested in a single Mutual Fund or ETF.
5. The Corporation encourages reasonable investment in international securities to enhance diversification and prudent investment. No more than 20% of the equity category is to be invested in international securities. These issues are to possess the same high quality characteristics of domestic securities owned in the portfolio.

E. Alternative Investments Category Guidelines

Alternative investments may be held opportunistically in the portfolio as a means of enhancing income received from investments, diversifying against other asset classes held, or enhancing returns over longer periods of time. Alternative investments are understood to be less-liquid than other asset classes, potentially more volatile, and generally more expensive to hold in the portfolio. As such, a smaller allowable allocation to this asset class is allowed by the Policy.

1. Eligible alternative investments include commodities, private equity, hedge funds, and real estate. While other assets are purchased from time to time by the corporation to meet the "mission of the University" for the benefit of the University, these are not part of the investment portfolio. However, their risk and return properties should be considered when determining target portfolio allocations.
2. All alternative investments held in the portfolio will be evaluated against appropriate benchmarks at least annually.



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3. The total value of all alternative investments typically will not exceed 10% of the portfolio. Other University Corporation assets, such as direct investment in commercial and residential real estate and participation in University facilities, do not count towards this 10% cap.
4. The maximum maturity for any investment within this category typically will not exceed fifteen years.
5. The alternative investments will be selected to increase the return to risk characteristics of the long-term investment portfolio.

F. Exceptions

Any exception to the guidelines in this Section vi A, B, C, D and/or E may be granted on an interim basis by mutual agreement of a quorum of the Investment Committee, the Executive Director and the CFO. Such interim exceptions will be ratified or changed at the next regular meeting of the Board of Directors.

G. Socially Responsible Investing

In the absence of explicit guidance from the University President or their designee(s), TUC will defer to guidance given by the Chancellor of California State University System to Auxiliary Organizations with regard to such practices.

VII. ADMINISTRATIVE AND REVIEW POLICIES

A. Levels of Responsibility

1. *Executive Director, Board Treasurer and CFO.* The Executive Director, Board Treasurer and CFO are responsible for implementing and administering the adopted Investment Policy, submitting a quarterly statement of the prior quarter's investment activity and performance analysis, and preparing the investment section of the annual report.
2. *Investment Manager(s).* The Investment Manager is responsible for making individual security buy and sell decisions and managing and reporting portfolio performance in a manner that complies with the policies, objectives and guidelines set forth herein and provide the reports stipulated in B, below. The Investment Manager has the authority to vote as proxy for TUC investments.
3. *Student-managed Investment Fund(s).* The academic advisor is responsible for supervising individual security buy and sell decisions. The external agent (broker, RIA, etc.) will report portfolio performance in a manner that complies with the policies, objectives and guidelines set forth herein and provide the reports stipulated in B, below.

B. Review of Investment Performance



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Evaluation of the Investment Manager's performance will be based on a variety of factors, including total return of the portfolio, portfolio performance relative to benchmarks, administrative factors and customer service, and other criteria as determined by the TUC Investment Committee.. Evaluation of the performance of asset groups, if applicable, will be based on the following indices:

1. Domestic Equities - Standard & Poor's 500;
2. International Equities – MSCI ACWI index
3. Domestic Fixed Income - Barclays Capital U.S. Aggregate Bond Index;
4. Cash Equivalents - 90-day Treasury Bill Rate;
5. Subsets of equities and fixed income investments will be measured against appropriate benchmarks initially identified at the time of investment. The benchmark selection will be approved by the Investment Committee. The benchmark can be changed with the approval of the Investment Committee
6. Alternative Investments will be measured against appropriate benchmarks initially identified at the time of investment. The benchmark selection will be approved by the Investment Committee. The benchmark can be changed with the approval of the Investment Committee.

The Investment Manager(s) or external agents will submit to the Corporation a monthly report, a quarterly summary report, and an annual summary report detailing the current portfolio holdings, market value, annualized yield, net realized gain, income from all invested assets, and other information that is customary on the Investment Manager's reporting system.

The Investment Manager(s) will meet with the Corporation's Investment Committee or Board of Directors as requested, at regularly scheduled meetings to present the above detailed information.

The Corporation's Investment Committee may also choose to compare investment results to other non-profit organizations to ensure its investment performance (e.g., risk and return measures) compares favorably to that achieved by peer organizations.

VIII. DELEGATION AND GRANTS OF AUTHORITY

Management responsibility for the investment program is under the authority of the Executive Director; the CFO will establish written procedures for the operation of the investment program consistent with this investment policy.

No person will engage in an investment transaction except as provided under terms of this policy and the procedures established by the CFO and approved by the Investment Committee of the Corporation. The



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CFO will establish a system of internal accounting controls to regulate the activities of subordinate representatives.

The authority to execute investment transactions affecting the Corporation's portfolio will be under the general direction of the Executive Director and delegated to the CFO.

IX. INVESTMENT POLICY REVIEW

The Investment Committee will review the current asset allocations and portfolio composition at least annually and this Statement of Investment Policy will be reviewed at least every three (3) years to ensure consistency with the overall objectives of the preservation of capital, liquidity, return relative to risk, and absolute returns of the investment portfolio. The Statement of Investment Policy will also be reviewed to ensure its compliance and relevance to the current law, financial and economic trends, and the projected cash flow requirements of the Corporation.

The investment portfolio is audited annually by the Corporation's independent accountants for internal controls and balances.

Rick Evans, Executive Director

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