

INVESTMENT POLICY

THE UNIVERSITY FOUNDATION



CALIFORNIA STATE UNIVERSITY, CHICO



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I. PURPOSE & SCOPE

This policy is to set forth investment instructions for The University Foundation, California State University, Chico, as well as to assign authorities and responsibilities. It contains provisions that are consistent with the principles and objectives of California State University, Chico. It is intended to provide general instructions for all applicable situations and to identify investment strategies and appropriate limitations. It will enable those individuals performing in a fiduciary capacity to operate within the financial objectives of the various funds entrusted to the foundation.

The purpose of The University Foundation is to support the current and long-term mission and goals of the university--improving academic quality while encouraging the continued growth of available funding through philanthropic endeavors and prudent management. It is recognized that an investment pool that is managed in a prudent and competitive manner will enhance the prospect of higher levels of future giving to the university.

To this end there are three goals of the foundation's investments:

1. To preserve and enhance the endowment through active management
2. To provide returns that are sufficient to meet spending needs
3. To increase the endowment through appreciation, excess income, and future gifts

The funds of the foundation are divided into basic categories. Each of these categories may be assigned specific objectives and time horizons depending on the most appropriate strategies to meet the university's obligations.

DEFINITIONS

1. The university shall mean California State University, Chico, as well as the various colleges and programs administered hereunder.
2. The foundation shall mean The University Foundation, California State University, Chico.
3. Fund shall mean any of the assets held by, or in trust for, and entrusted to the foundation.
4. Investment consultant shall mean a firm, individual in a firm, or group of individuals in a firm employed to advise and manage other investment managers regarding any part of the fund's assets and do not sell investment products.
5. Investment Manager shall mean a firm, individual in a firm, or group of individuals in a firm employed and compensated for any of the following activities: directly manage or act as the investment representative for any part of the fund's assets, sell or purchase investment

products, or provide investment/brokerage related services to charitable trusts, co-trustees, or endowment accounts.

6. Development staff shall mean any of the individuals employed by the university with direct responsibility for promoting, soliciting, and stewarding donors who make gifts to the university and/or the foundation.
7. Investment horizon shall mean any time period over which the established investment objectives are expected to be met.
8. The board shall mean the University Foundation Board of Governors.
9. The committee shall mean the Finance and Investment Committee of the foundation and is comprised wholly of board members.
10. Donor shall mean any individual or group of individuals who makes a present or future interest gift to the foundation.
11. Portfolio shall mean a combined holding of more than one investment or asset.
12. True Endowments are established by donors to provide regular distributions at least annually. The distributions are based on a percentage, as determined by the foundation's Endowment Spending Policy. The gift principal remains intact, unless the donor gives express written consent that the account's principal may be used during times when cumulative earnings are not sufficient to make an annual allocation of the award.
13. Quasi-Endowments are established by the board. Awards from these endowments may permit the spending of the principal for the purposes stated within their guidelines.
14. Term Endowments are temporary accounts and permit the spending of the principal only after the donor-specified "term" of the gift is reached. Until the term is reached, awards will be based on the percentage of the average annual earnings as determined by the board. Terms can be for a period of time, a designated event, or when a specified level of growth is attained.
15. Flexible Endowments allow the donor to fund the endowment account over a period of time. Annual gifts will be made to provide at least the minimum award amount that the endowment would generate if it were fully funded. Concurrently, the donor may make additional gifts to the endowment to build the principal. An agreement on details of the endowment and award amounts will be made in writing between the donor(s), department chair, college dean, and the associate vice president for university advancement or designee.

II. POLICY STATEMENT

The purpose of the invested funds of the foundation is to establish a medium through which future as well as present financial needs of the university may be achieved, and to preserve the real purchasing power of the foundation's assets. The preservation of capital is paramount over the long term. Internal growth that matches inflation will be expected. The board will focus on the long-term, inflation-adjusted, and financial needs of the university.

An investment horizon has been selected to compensate for the volatility and market cycle aspects of each asset category. This time horizon is established to acknowledge the volatility and market cycles that are inherent in long-term investing. The board expects that equity investments will provide higher returns compared to fixed income investments. The long-term performance will be maximized by maintaining a heavier weighting in the broadly defined equity component. By the same reasoning, cash and equivalents will be minimized as an investment class.

The board delegates the on-going investment management and evaluation of the foundation's funds to the committee.

III. AUTHORITIES

BOARD

The board has the overall responsibility of all funds held by the foundation. The foundation recognizes its responsibility, as a stockholder, to support corporate citizenship, growth, and social responsibility. Accordingly, the foundation will make responses through the voting of proxies and other actions based on information available to the committee. However, when an investment consultant is engaged, the board will delegate the voting of proxies in managed portfolios to the investment managers. The board and the investment consultant will periodically review the proxy votes.

COMMITTEE

In accordance with the bylaws of the foundation, the committee shall consist of members nominated by the chair of the board. The Committee shall be of such size as determined by the chair. The chair of this committee must be a member of the board. The bylaws provide that the Committee shall have general charge of the investments of all funds of the foundation. At least half

of such members shall constitute a quorum at any meeting of the committee. Investment decisions, including but not limited to investment consultant selection and asset allocation of the accounts, shall be made with majority approval of all the committee members present at a meeting. On behalf of the board, the committee shall have the authority to do the following:

1. Establish and maintain guidelines and objectives for investments of the foundation
2. Determine asset allocations that are appropriate for the various accounts
3. Hire and dismiss investment consultant(s) and investment manager(s) as needed
4. Provide and implement a system for monitoring the performance of investments and professional investment consultant
5. Review the selection of brokers and agents for the purpose of conducting securities transactions, selling real estate, appraisals, or performing any other professional activities essential to the safeguarding and managing of those assets under the purview of the Committee
6. Seek investment consultant's assistance whenever deemed necessary to assure that an investment is compatible with the risk tolerance and objectives of both the donor and the foundation
7. Establish and monitor an Endowment Spending Policy for the foundation
8. Direct the foundation secretary and/or treasurer to implement the decisions of the Committee
9. Report committee agendas, minutes, and actions to the board at regularly scheduled board meetings

INVESTMENT CONSULTANT

The selection, supervision, evaluation, and retention of investment consultant and/or manager will be under the authority of the Committee. The Committee will provide objectives and benchmarks for the investment consultant/manager to use in managing the foundation's fund accounts. The Committee or its designee(s) shall meet as determined to be necessary, but at least annually with the investment consultant for review of performance and compliance with committee's investment guidelines. The Committee shall also review the annual performance report prepared by the investment consultant of those funds under management by investment managers. Any proposed changes in the guidelines by the investment consultant and/or investment managers are to be communicated in writing.

Required Communications from Investment Consultant and/or Investment Managers

The investment consultant and/or investment managers shall provide the following to the Committee:

1. Quarterly portfolio valuations and transaction listing and account updates as reasonably requested by the Committee
2. Information regarding changes in investment composition that may result in investment strategy changes
3. Information regarding changes in management, research, personnel, or ownership within the investment management firm
4. An annual copy of the Form ADV, Part II that they file with the Securities Exchange Commission (in the case of banking organizations, or such corporations that do not file a Form ADV, an audited financial statement with Annual Report will suffice)
5. Any other past and present material information, including, but not limited to, pending litigation and judgments involving the firm or its personnel

Communication from the Committee

Whether funds are managed by a retained professional or internally through the foundation, instructions should be given to the manager that are consistent with the Committee's expectations and that identify the type and quality of acceptable securities. The Committee, or its designee, should provide a statement of how the portfolio is to be measured. Within these broad parameters the investment consultant/manager shall have discretion how best to meet the fund's objectives. Any other guidelines or restrictions adopted by the Committee will be communicated in writing.

Individualized Provisions

1. The Committee will work with the investment consultant to select investment managers who have been personally recommended by a donor who establishes a charitable trust and/or endowment to benefit the university. Such investment management provisions will generally terminate when the donor's income interest expires and/or is deceased. The Committee must approve exceptions, which would allow a recommended investment manager to continue.
2. Investment professionals who initiate the process of their client establishing a charitable trust or endowment for the foundation will be allowed to function as the investment manager for the particular gift, provided they present an acceptable investment action plan for review by the foundation's investment consultant, secretary, and treasurer prior to submission to the Committee for final approval. If the Committee deems the investment manager's

proposed investment action plan and past performance satisfactory, the investment manager will have the opportunity to continue the management of the investment and to increase his or her role with the foundation.

3. When the grantor/donor retains investment powers (as co-trustee) over the invested funds, the Committee shall have secondary responsibilities for reporting the account's status to the board at least annually.
4. An investment manager who is approved through a donor's recommendation shall be compensated in accordance with a negotiated rate, not to exceed their published rates in Form ADV, Part II, or similar document.
5. The Committee will review investment manager relationships with the foundation at least annually.
6. At all times, the selection, supervision, evaluation, and retention of investment managers will be under the authority of the Committee.
7. Donors may recommend investment advisors or investments to the Committee provided they understand and acknowledge that ultimate authority for selecting investments and investment managers is vested in the foundation.

The right to recommend such selections is given by the board to a donor subject to final review and approval by the Committee. Ultimate authority for the investment of funds contributed to a donor-advised fund or gift annuity resides with the Committee. An exception to this policy may be made only where (1) a donor creating a charitable trust for the ultimate benefit of the foundation designates himself or herself or other designated individual(s) as the co-trustee(s) along with the foundation and (2) the designated individual co-trustee(s) executes a written agreement in the foundation's standard form, or equivalent form accepted by the Committee and the board, that divides the duties of the co-trustees in accordance with California State law. In this latter case, the donor or other designated individual has legal authority to select investments and investment managers as outlined in the agreement between the co-trustees.

UNIVERSITY DEVELOPMENT

The professional development staff of the university will have the responsibility to promote all board approved planned giving plans. The associate vice president for university advancement and the director of university development for major gifts and planned giving shall have the authority to negotiate the board approved planned giving plans with donors and will submit the plans to the secretary and treasurer for review and approval. The final approval and execution of Life-Income Agreements or other planned giving plans must be approved by the secretary and treasurer and

will follow the *Planned Giving Policy and Procedures*. University development directors may solicit, on behalf of the foundation, professional working relationships with allied professionals, businesses and corporations, individuals, and public and private entities for the enhancement of the mission and goals of the foundation and university.

STANDARD OF CONDUCT

In the administration of the powers delegated to the Committee, members shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action and decision. In doing so they shall consider the following:

1. Long-term and short-term needs of the foundation accounts in carrying out its educational purposes
2. Its present and anticipated financial requirements
3. Its expected total return on investment
4. The general economic conditions

In the course of exercising such ordinary care and investment prudence of a fund, the Committee or foundation staff may recommend changes. Such recommended changes may include, but are not limited to:

1. Changing managers
2. Establishing a revised target allocation
3. Selling an asset
4. Purchasing an asset

In the conduct of these affairs, the Committee is free to consult with the board whenever it is determined appropriate, but should conduct the investment affairs of the foundation with the understanding that the Committee is fully empowered to act on behalf of the board in all matters concerning investments.

IV. INVESTMENT PHILOSOPHY

TYPES OF FUNDS

Current Funds

Current funds consist of cash temporarily not needed by various units of the foundation and cash that may be held for future expenditures for a specific purpose or project. These funds shall be placed in relatively liquid and low-risk cash instruments such as certificates of deposit, savings

accounts, federally guaranteed notes and bills, U.S. Guaranteed bonds, money market funds, and Local Area Investment Funds (LAIF).

Endowments

The endowment consists of funds that have been donated to the foundation for the benefit of the university. The endowment funds are generally managed and invested for long-term total return. An individual endowment account may be in the form of a True Endowment, Quasi-Endowment, Term Endowment, or Flexible Endowment. Additionally, Donor-Advised Fund accounts are managed with the endowment under the authority of the Committee.

Life Income Agreements

The foundation may serve as the trustee (or a co-trustee) for charitable trusts and issues gift annuity agreements wherein the assets are invested and a portion of the earnings will accrue to the donor(s) or other income beneficiaries. After a specified period of time or other events such as the death of the donor(s) or other life income beneficiaries, the remaining funds will revert to the foundation. At that time, those funds then may be identified as endowed or restricted, or otherwise invested separately. Each trust will have special provisions that will cause the Committee to review and approve specific investment objectives and guidelines in order to satisfy the requirements of the donor(s) or other charitable beneficiaries' ultimate objectives. Gift annuity funds will be invested in accordance with the regulations of the California Department of Insurance.

Gifted Real Estate

The foundation may receive (or serve as a trustee or issuer of life income agreements which receive) gifts of real estate or limited partnerships for the full or partial benefit of the foundation. The Committee is charged with periodically reviewing those assets and making recommendations to the board concerning management, appraisal, sale, or other needed action.

V. INVESTMENT OBJECTIVES

TOTAL RETURN

The objective of the foundation's investment program is to obtain the maximum possible return on funds consistent with protection of investment within prudent risk limits. In trying to meet that objective, it must be recognized that all investments carry with them some degree of risk, not only as to the safety of the principal itself, but also with regard to the inflationary erosion which occurs

from failure to achieve an adequate return on investments. The board believes that by attaining this broad objective, it will balance the foundation's spending needs with the required growth for future generations.

Within the overall investment objectives stated above, different types of funds may have different objectives. It is the responsibility of the Committee to develop objectives and state those differences where appropriate. For example, the investment objectives of pooled endowments may be different than those of the life income agreements. Specific objectives for each fund will be developed and monitored by the Committee. Those objectives should consider the particular requirements of each fund, including cash flow, donor expectations, the impact of gains and losses of capital, and other factors that may be known to the Committee.

TIME HORIZON SENSITIVITY

Each fund or account may bring specific obligations to the foundation. The objective is to meet these obligations on a predictable and regular basis, while not jeopardizing the general policies and long-term goals of the foundation.

BENCHMARKS

Total return will be measured against the appropriate benchmarks on one-, three-, and five-year horizons. The investment consultant will be expected to produce (net of fees and transaction charges) returns that are above the benchmarks. Further, sector performance and total fund return shall be considered and compared with composite performance results of similar funds (in volume and objective) and other advisors managing portfolio assets under comparable circumstances as established by the Committee.

EVALUATION

The Committee recognizes that market conditions bear upon the ability of an investment consultant/manger to meet year-to-year specific investment goals and objectives. Further, the Committee realizes that cash flow may also bear substantially upon the ability of a consultant/manager to meet a specific near-term objective. Accordingly, the expectation is to monitor performance in both *absolute* and *relative* terms over a specified period.

Absolute results will determine the rate of fund performance. Review of portfolio results in absolute terms shall be made with an eye toward meeting and exceeding the expressed minimum rate of return over a specified period.

Relative results will provide the Committee with a view of performance compared to corresponding market indicators. Review of portfolio results in relative terms shall be accomplished primarily by reviewing results and composite standards such as:

- The Standard & Poor’s 500 Index as *one guide* for equities
- The Lehman Brothers Aggregate Bond Index as *one guide* for the fixed income segment
- The Russell 2000 Index as *one guide* for the small cap value equity
- The 90-day Treasury Bill rate as *one guide* for the productivity of cash
- The Consumer Price Index as an indicator of inflation
- Professionally managed portfolios under comparable circumstances

PERFORMANCE REVIEWS

The Committee should conduct a quarterly review of the performance of all the funds under its authority. In doing so, the Committee may use a third party for such performance evaluation or any other method, which provides the information needed to assess investment performance. Any professional investment consultant/manager engaged as broker or custodian will, as part of its service, submit a quarterly performance review of all accounts under its purview.

GENERAL ALLOCATION RANGES

ASSET CLASS	Normal Target	Allowable Range
EQUITY TOTAL	70%	40 – 80%
FIXED INCOME TOTAL	30%	20 – 60%
CASH & EQUIVALENTS	0%	0 – 20%

GENERAL DIVERSIFICATION STANDARDS

1. No more than 5% of the portfolio market value may be invested in one issue or issuer.
2. No more than 40% of the portfolio market value may be invested in one mutual fund.
3. No more than 20% of the portfolio market value may be invested in one industry sector.

The asset allocation and diversification guidelines established by the Committee will provide the basis for the Committee's investment decisions. The Committee may amend changes to the allocation targets and ranges from time to time. The Committee may liquidate and/or re-invest any specific asset held by the foundation when it is deemed prudent under the principles of these policies.

ASSET CLASSES

To manage the portfolio's diversification, the Committee may identify sub-divisions of the asset classifications. It is acknowledged by the Committee that alternative investment classes can add value to the total endowment return and reduce volatility by diversification through inversely correlated investments. The Committee may either initiate or screen proposals to use different and/or new asset classes.

Date Approved by Board _____

Interim Secretary _____

Robert Alber

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