

CAL POLY POMONA FOUNDATION, INC.

POLICIES AND PROCEDURES

Subject:	Management of Endowment and Similar Funds Policy	Policy No.	130
		Old No.:	1991-1
		Date:	04/25/91
Reference:	229-III-A; 230-II-C; 275-II-D 277-IV-C; 300-II-D	Revision:	05/29/96; 09/04/96; 12/19/00

PURPOSE

To provide a policy and procedural framework for managing endowment and related accounts.

BACKGROUND

- A. An endowment consists of money or other assets received for a purpose where the donor, grantor or source has specified that the principal shall be preserved.

The Cal Poly Pomona Foundation, Inc. (hereinafter referred to as the "Foundation") serves as the recipient of gifts and grants intended by donors, grantors or the University "for endowment." In this role, the Foundation may serve as the trustee or may be the absolute owner of the assets. In either case, there exists a fiduciary standard to use and account for endowment assets in a manner prescribed by accepted financial standards, within program and policy objectives of the University, and, where applicable, in accordance with the trust instrument.

This statement provides a policy framework for managing endowment accounts. The objectives of this statement are two-fold: to support the University's endowment program with a systematic and interactive mechanism through which proposed endowments are evaluated and managed; and to insure compliance with restrictions imposed by donors, and designations imposed by the University and the Foundation Board on use of funds and their earnings. The policy and process set forth in the following sections are intended to complement the Foundation's Investment and Spending Policy for Endowment and Similar Funds.

- B. Types of Endowments and Similar Funds

1. The Foundation shall establish and utilize a group of accounts known as Endowment and Similar Funds. This group shall include funds whose principal is generally non-expendable as of the date of reporting and is invested, or is available for investment, for the purpose of producing income and/or capital growth. Resulting income, in exceptional cases the principal shall be available for expenditure or for inclusion in the principal.

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2. The types of endowments and similar funds included are:
 - a. Permanent Endowment funds are those of which the principal must remain inviolate and in perpetuity, with only the income from investment of the principal being available for expenditure or inclusion to principal;
 - b. Term Endowment funds are those of which donors of the University have stipulated shall be released from endowment status upon the occurrence of a specific condition(s) or the passage of time; and
 - c. Quasi-Endowment funds are similar to endowments and are those which the board of directors, at the request of the University rather than a donor, has determined to be retained and managed as though they were "for endowment." Such funds may be released at the discretion of the Board.

C. Accounting and Investment Principles

The following primary principles shall govern the accounting for and reporting of funds in this group:

1. Except as may be prescribed by law or regulations, endowment funds may be commingled for investment purposes. Endowment funds shall not be commingled with other Foundation money for investment purposes in order to preserve and protect their character and function. A separate investment policy for endowments and similar funds has been adopted by the Cal Poly Pomona Foundation Board of Directors.
2. Accounting records shall include a written register on each endowment to assure accurate and complete documentation of all conditions under which such funds are accepted and used.
3. The character of endowment funds shall be traced accurately to separate the principal of each endowment from the income earned therefrom to be available for expenditure, reinvestment, or as designated reserves.
4. Investment procedures as reviewed annually by the Board, will include specific controls to insure risk is managed. The preservation of the corpus of the endowment and the maximization of this earning potential balanced by prudent investment shall be considered fundamental.

POLICY

- A. Assets or endowment funds shall not be hypothecated or pledged for any purpose, and shall not be loaned or invested in a manner inconsistent with the Foundation's investment policies.

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- B. Action by the Executive Director or his/her designee is required to establish an endowment fund. Such action shall normally be by request of the University. An endowment agreement shall include or make specific reference to the purpose, conditions and restrictions accorded to each endowment. The agreement shall be approved by the University and found consistent with applicable law and regulations.
- C. Threshold amounts required to fund, at a minimum level, each type of endowment have been established by the University, consistent with objectives of the University's endowment program and prudent investment management standards. Exception to any established threshold shall be approved by the University and submitted to the Finance/Investment Committee and, if necessary to the Board of Directors for consideration.
- D. Endowment earnings shall generally be available for distribution from these endowments. The threshold amount designated for an endowment fund shall generally be available for these endowments for no less than three (3) consecutive months. Exceptions may be authorized per approval by the Executive Director, his/her designee and the Board of Directors. Assets for endowment other than cash or securities must be referred to the Finance/Investment Committee and, if necessary, to the Board of Directors for consideration.
- E. A written register shall document each endowment. The register shall include such information as:
 - 1. Donor/University approval of endowment
 - 2. Board or Executive Director or his/her designee's approval
 - 3. Endowment statement
 - 4. Donor name with brief biographical comments
 - 5. Amount/date of donation(s)
 - 6. Type of endowment
 - 7. Identification by endowment program component
 - 8. Action(s) by the Finance/Investment Committee and the Board of Directors, where required

PROCEDURE

- A. Normally, the review and approval process to establish an endowment shall be as follows:
 - 1. Endowment statement/resolution is developed between prospective donor(s), University and Foundation staff.
 - 2. The University approves the endowment statement and requests that the Foundation consider establishing the endowment.

3. Donor funds proposed endowment and an endowment agreement is established.
4. Foundation takes action to accept the restricted gift and establish endowment account(s).
5. Foundation management takes appropriate actions to establish accounts, report action to the Board if necessary, and set up fund administration in collaboration with appropriate University staff. Fees for administrative services below the established maximum may be negotiated in special cases between the Foundation and the University.
6. Earnings distributed per the Foundation's Investment Policy for Endowment and Similar Funds.
7. The net earnings yield will be reduced by 0.75% (3/4 of a basis point) annually prior to distribution to individual accounts. If total net return for endowments is less than 0.75% (3/4 of a basis point) annually, fees will be first recovered from prior undistributed earnings and second from the Foundation's allocated designated gift budget to University Advancement, if available.

POLICY IMPLEMENTATION

- A. The Executive Director is authorized to establish written operating guidelines to implement this policy statement.

CAL POLY POMONA FOUNDATION, INC.

ENDOWMENT INVESTMENT PROCEDURE

Prepared: 05/29/96

Revised: 12/19/00

I. TARGET ASSET ALLOCATION

To achieve its investment objectives, the endowment investments shall be allocated among a number of asset classes. These asset classes may include: domestic equity, domestic fixed income, international equity, international fixed income, real estate and cash. The purpose of allocating among asset classes is to ensure the proper level of diversification within the endowment investment pool. It is understood that endowments may temporarily be placed in a cash equivalent account awaiting market timing and economies of scale for investing.

The following Target Asset Mix Table defines the endowment investment pool target asset allocation, of each asset class:

Target Asset Mix Table

<u>Asset Class</u>	<u>Range</u>	<u>Target Wt.</u>	<u>Representative Index</u>
Equities (Including Domestic and International)	50-70%	60%	S&P500
Fixed Income (Including Domestic and International)	30-50%	35%	Lehman Aggregate
Cash Equivalents	0-20%	5%	90 Day Treasury Rate

II. INVESTMENT GUIDELINES AND RESTRICTIONS

The investment policies, guidelines and restrictions presented in this policy statement serve as a framework to help the Foundation and its Investment Manager(s) (either internal or external) achieve the investment objectives at a level of risk deemed acceptable. The Endowment Fund will be diversified both by asset class and within asset classes. Within each asset class, securities will be diversified among economic sector, industry, quality, and size. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total fund. As a result, the risk level associated with the portfolio investment is reduced.

Within the equity and fixed income asset classes, managers with different investment styles may be employed. Diversification by investment style is also an important step in reducing the risk of the Endowment Fund portfolio.

A. EQUITY SECURITIES

Equity securities shall generally be restricted to high quality, readily marketable securities of corporations that are actively traded on the major stock exchanges, including NASDAQ. Direct purchase or approved mutual funds may be utilized. International equity investments of similar quality and marketability will be permitted up to 15% of the total equity portfolio.

Equity holdings must generally represent companies meeting a minimum market capitalization requirement of \$100 million with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to broad manager discretion, subject to the standards of fiduciary prudence. However, no single major industry shall represent more than 20% of the total market value of the Endowment, and no single security (excepting mutual fund shares) shall represent more than 5% of the total market value of the Endowment.

Combined securities (debt and equity) in any one company shall not exceed 10% of the portfolio.

The Investment Manager(s) is prohibited from selling securities short, buying securities on margin, borrowing money or pledging assets, or trading uncovered options, commodities or currencies without the advance written approval of the Investment Committee. The Manager(s) is also restricted from investing in private placements and restricted stock unless otherwise permitted in writing by the Investment Committee. It is expected that no assets will be invested in securities whose issuers are or are reasonably expected to become insolvent, or who otherwise have filed a petition under any state or federal bankruptcy or similar statute.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of equity securities.

B. FIXED INCOME SECURITIES

The purpose of fixed income investments, both domestic and international, is to provide diversification, and a predictable and dependent source of current income. It is expected that fixed income investments will not be totally dedicated to the long-term bond market, but will be flexibly allocated among maturities of different lengths according to interest rate prospects. Fixed instruments should reduce the overall volatility of the Fund's assets, and provide a deflation hedge.

Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums, with the object of meeting or exceeding the results of the fixed income market as represented by the annualized returns of the Lehman Aggregate Bond Index, over an annualized moving three and five year time period.

The Investment Manager(s) may select from appropriately liquid preferred stocks, corporate debt securities, and obligations of the U.S. Government and its agencies. Direct purchase or approved mutual funds may be utilized. These investments will be subject to the following limitations:

No issues may be purchased with more than 30 years to maturity;

Investments of a single issuer, with the exception of the U.S. Government and its agencies (including GNMA, FNMA and FHLMC), may not exceed 5% of the total market value of the Endowment;

No more than 15% of the corporate debt securities in the fixed income portfolio may be rated below-investment grade.

Within the fixed income component, the Investment Manager(s) is prohibited from investing in private placements, and fixed income or interest rate futures, without the prior written approval of the Investment Committee.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of fixed income securities.

C. **OTHER SECURITIES:**

1. **Real Estate** - Investments may also include equity real estate, held in the form of professionally managed, income producing commercial and residential property. The total value will not exceed 15% of the fund.

2. **Derivatives and Derivative Securities** - In general, the use of derivative securities by the Investment Manager shall be discouraged, unless such an opportunity presents itself that the use of these sophisticated securities would provide substantial opportunity to increase investment returns at an appropriately equivalent level of risk to the remainder of the total portfolio. The approval and use of derivative securities will not be allowed unless the Investment Committee is confident that the Investment Manager(s) thoroughly understands the risks being taken, has demonstrated expertise in their usage of such securities, and has guidelines in place for the use and monitoring of derivatives.