

CAL POLY POMONA FOUNDATION, INC.

POLICIES AND PROCEDURES

Subject:	Investment Policy	Policy No.	131
		Old No.	1994-2
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I. POLICY

This Statement of Investment Policy is intended to provide guidelines for the prudent investment of the Foundation's (see Scope, Section III) asset portfolio and outline the policies for maximizing the effectiveness and efficiency of the Cal Poly Pomona Foundation, Inc. ("Foundation") investment management program. The goal of this investment policy is twofold, one is to enhance the economic status of the Foundation while preserving its capital resources; the second is to establish a clear understanding between the Foundation and their Investment Manager(s) regarding investment objectives and policy guidelines. The Foundation's Statement of Investment Policy is to be governed by Sections 5210 and 5231 of the California Corporations Code, and California Probate Code Section 18500 *et seq.* (*Uniform Prudent Management of Institutional Funds Act*).

II. OBJECTIVE

The Foundation's investment management program is designed to monitor and forecast expenditures and revenues, thus enabling the Foundation to invest its asset portfolio to the fullest extent possible. The Foundation attempts to obtain the highest yield available, while investments meet the criteria established for safety (preservation of capital), liquidity and yield.

A. SAFETY

Asset portfolio safety is the foremost objective of the Foundation. Each investment transaction shall seek to ensure portfolio losses are avoided, whether from securities default, rating downgrades, broker/dealer defaults, or erosion of market value. Cal Poly Pomona Foundation, Inc. shall seek the preservation of its portfolio by managing two types of risk: credit risk and market risk.

1. Credit Risk - is the risk of loss due to failure of the issuer and is managed by proper due diligence prior to investing and on an ongoing basis, and diversifying the investment portfolio so the failure of any one issuer would not materially affect the cash flow of the Foundation.

2. Market Risk - is the risk of investment value fluctuations due to changes in the general level of interest rates or the issuer's individual or industry sector performance. This risk shall be managed by limiting the average maturity of the fixed income portion of the Foundation's investment portfolio to five years and the maximum maturity of any one security to ten years, with the exception of Mortgage-Backed Securities (MBS), the maximum maturity of which shall be limited to thirty years. Market risk shall also be managed by structuring the portfolio so fixed income securities maturing match cash outflows, eliminating the need to sell securities prior to their maturity. It is recognized that within a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall return on the investment.

B. RETURN ON INVESTMENT

The Foundation's investment portfolio shall be designed to attain or exceed a target rate of return throughout economic cycles consistent with risk limitations and prudent investment principles. The target rate of return shall be measured in "absolute", "relative" and "comparative" terms as determined by the Finance/Investment Committee. See Performance Evaluation Section VIII of this Investment Policy for further details.

C. LIQUIDITY

Cal Poly Pomona Foundation, Inc.'s investment portfolio will remain satisfactorily liquid to enable the Foundation to meet anticipated operating and cash flow requirements. Historical and cash flow needs are to be analyzed continuously.

III. SCOPE

The funds identified in this section and entrusted to the Foundation will be pooled in an actively managed portfolio. The Foundation shall oversee management of the portfolio within the content of the "Uniform Prudent Management Investment Funds Act of 2008" section 18503 (b) which states:

"...each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances."

This policy is applicable, but not limited to all funds listed below:

- General Fund
- Sponsored Programs Fund
- Designated Fund
- Enterprise Fund
- Agricultural-Aid-To-Instruction Fund
- Campus Program Fund
- Scholarship Fund
- Continuing Education Fund
- Real Estate Fund

IV. DELEGATION AND GRANTS OF AUTHORITY

Responsibility for the investment program has been delegated by the Foundation to the Finance/Investment Committee. The Finance/Investment Committee will obtain approval of the Board of Directors before implementing any changes to this investment policy. A report on portfolio performance will be provided to the full Foundation Board on a quarterly basis at a regularly scheduled Board meeting.

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

V. ETHICS AND CONFLICT OF INTEREST

All Foundation Board members and investment personnel including family members shall refrain from personal business activity which could create a conflict in fact or in appearance with proper execution of the investment program, or which could impair their ability to execute impartial investment decisions. All such personnel shall disclose to the Executive Director any material financial interests in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Foundation's investment portfolio. The Executive Director shall report in writing to the full Board at least annually all issues, which could influence the performance of the Foundation's investments.

VI. CRITERIA FOR SELECTION OF INVESTMENT MANAGERS

In order to retain investment management organizations that have demonstrated competence in executing one or more investment strategies consistent with the established policy, the following criteria will be applied in retaining existing firms and selecting new investment managers:

- A. Demonstrated performance in one or more of the asset categories defined in sections X.
- B. A sound research program;
- C. A disciplined consistent and measurable approach to the construction and monitoring of portfolios;
- D. Established investment control procedures with operating management information to assure regular review of the portfolio manager's decisions;
- E. Ability to trade at the competitive rates and consistently secure best price execution;
- F. Primary business purpose will be investment management and will have sufficient experience with educational endowment assets;

- G. Demonstrated ability to manage its affairs in a business like manner and with a high degree of financial stability;
- H. An experienced, highly competent professional staff, recognized as such within the industry. Continuity of such personnel will be considered;
- I. No conflict of interest with the policy, objectives, or organization of the investment portfolio nor any conflict which would interfere with prudent management of the portfolio's assets;
- J. Capability to report accounting and performance data in a timely manner;
- K. Competitive fee structure.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Foundation shall transact business only with banks, savings and loan institutions and registered investment securities dealers. The dealers should be primary dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York and qualify under the U.S. Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

The CFO shall send a copy of the current statement of investment policy to all dealers approved to do business with the Foundation. Confirmation of the dealer's understanding of the Foundation's investment policy shall be provided in writing by the dealer.

The CFO shall examine financial institutions which wish to perform business with the Foundation, in order to confirm whether the participating financial institutions are satisfactorily capitalized, are market makers in securities appropriate to the Foundation's financial investment universe and agree to comply by the conditions set forth in this Statement of Investment Policy.

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

All financial institutions and broker/dealers who qualify to perform investment transactions for the Foundation must supply the CFO the following:

- A. Audited financial statements*
- B. Proof of National Association of Security Dealers certification**
- C. Proof of registration with the SEC and a copy of their ADVII***
- D. Proof of state registration
- E. Completed broker/dealer questionnaires
- F. Certificate of reviewing and understanding the Cal Poly Pomona

Foundation, Inc.'s investment policy

G. Certificate of understanding the delivery versus payment instructions for custody

H. Conflict of interest certification statement

* Custodians and brokers only

** Brokers only

*** Investment advisors only

A review of the financial condition and registration of the qualified broker/dealers and other bidders will be conducted by the CFO at least every three (3) years. This review shall be reported to the Finance/Investment Committee as an "information item only."

VIII. PERFORMANCE EVALUATION

Performance will be reviewed for purposes of determining adherence to appropriate risk Levels, and for comparison of returns to the established objectives and specific goals.

It is recognized that investment results can fluctuate through market cycles. Achievement of total rate of return within the risk levels identified will be the primary basis upon which to evaluate manager performance. Each manager's portfolio will be monitored and reported quarterly to the Finance/Investment Committee. A comprehensive quarterly report accepted by the Finance/Investment Committee will be presented to the full Board of Directors.

IX. RETURN OBJECTIVE

The purpose of the Foundation's investment portfolio is to support the University and its mission over the long term. Accordingly, the purpose of this statement is to establish a written procedure for the investment of the Foundation's portfolio to ensure that the future growth of the portfolio is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the portfolio. This statement will establish appropriate risk and return objectives in light of the fund's risk tolerance and investment time horizon. These objectives, as well as asset allocation guidelines and suitable investments are outlined below.

The return objectives of the Foundation's investment portfolio shall be viewed from three perspectives as follows: **Absolute** - Real (i.e., net of inflation) rate-of-return **Relative** - Time-weighted rates of return versus capital market indices; and **Comparative** - Performance of the Investment Manager(s) as compared to a universe of similar investment funds.

1. The **Absolute Objective** of the Foundation's investment portfolio is to seek an average total annual return of 2.0% plus the percentage change in the greater Higher Education Price Index (HEPI). This objective shall be measured over rolling one, three, five and ten year time periods; The intent of this objective is to measure, over time, the return on the portfolio as measured in inflation adjusted terms.
2. The **Relative Objective** of the Foundation's investment portfolio is to seek competitive investment performance versus appropriate capital market

benchmarks or indices. This objective shall be measured primarily by comparing investment results over an annualized three year period, to:

- a) The Standard and Poor's 500 for the Equity component;
 - b) The Lehman Aggregate Bond Index for the Common Fund Fixed income component and the Merrill Lynch 1-3 year treasury as a benchmark for the other Fixed Income component;
 - c) The 90-Day Treasury Bill Index as the benchmark for the Cash and Equivalent component.
 - d) The National Counsel of Real Estate Investment Fiduciaries (NCREIF) for the Common Fund Real Estate component.
 - e) Alternative Investments shall be benchmarked against an authorized investment vehicle of the Foundation.
3. The **Comparative** performance objective of the Foundation's investment portfolio is to achieve a total rate of return that is above the median performance of universe of similar portfolios.

The Foundation's assets have a long-term, indefinite time horizon that runs concurrent with the endurance of the University. As such, these funds can assume a time horizon that extends well beyond a normal market cycle, and can assume an above-average level of return volatility (as measured by the standard deviation of annual returns) in exchange for an expected higher level of returns over the longer time horizon. It is expected, however, that both professional management and sufficient portfolio diversification will smooth volatility and help to assure a reasonable consistency of return.

X TARGET ASSET ALLOCATION

To achieve its return objectives, the Foundation's investment portfolio 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 Foundation's investment portfolio. It is understood that assets may temporarily be placed in a cash equivalent account prior to investing in longer term instruments.

The following Target Asset Mix Table defines the Foundation's investment portfolio target asset allocation.

Target Asset Mix Table

<u>Asset Class</u>	<u>Range</u>	<u>Target Wt.</u>	<u>Representative Index</u>
Common Fund Equities	10-65%	25%	Reported by Common Fund
Mutual Funds-Equity	10-65%	0%	Reported by Mutual Fund
Fixed Income			
(Domestic and International)	40-85%	55%	Common Fund/Merrill Lynch *
Mutual Funds-Debt	40-85%	0%	Reported by Mutual Fund
Cash Equivalents	0-20%	5%	90-Day Treasury Rate
Common Fund Real Estate	0-10%	5%	Reported by Common Fund
Alternative Investments	0-25%	10%	Authorized investment vehicle

* Level of income (yield) on the portfolio that is the rolling 12 month of the one year treasury or the 24 month of the two year treasury is weighted more heavily than the total return of the Merrill Lynch 1-3 year treasury as only the yield is distributed to the projects and not the total return of the portfolio.

No more than 5 percent of the asset class may be invested in any single equity or fixed income issuer, excluding U.S. Treasury Securities, U. S. Government Agency Securities and Mortgage Back Securities, at time of purchase.

Exposure to any industry sector shall generally be limited to 20 percent of the asset class, excluding U.S. Treasury Securities, U.S. Government Agency Securities and Mortgage Back Securities, at time of purchase. This sector limitation is applicable to both debt and equity.

* All limitations expressed on a market value basis.

The general policy shall be to diversify investments among both equity and fixed income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Investments (both debt and equity) in international issues shall be U.S. dollar denominated or appropriately hedged so as to eliminate fluctuations in value attributable to changes in currency exchange rates.

ACCEPTABLE INSTRUMENTS

1. Money Market Funds
2. Certificates of Deposit
3. U.S. Government or Government Agency Obligations,
4. Mortgage Backed Securities
5. Corporate Debt
6. Repurchase Agreements
7. Mutual Funds (Debt or Equity)
8. Common Funds (Debt, Equity and Real Estate)
9. Alternative Investments

With respect to the above listed investments, the following limitations will apply:

- Money Market Funds including the Local Agency Investment Fund (LAIF). No more than 5% of the market value of the total portfolio may be invested in any fund. All funds utilized must be pre-approved by the Finance Committee.
- Certificates of Deposit. Investments in certificates of deposit in any insured bank or savings institution shall be limited to the FDIC insurance maximum.
- U.S. Government or U.S. Government Agency Obligations. There is no limitation within the asset class as to the percentage of the portfolio, which can be invested in U.S. Government obligations.
- Mortgage Backed Securities. All investments in MBS shall be U.S. Agency guaranteed (e.g. GNMA, FNMA, FHLMC). There is no limitation within the asset class as to the percentage of the portfolio, which can be invested in MBS.
- Corporate Debt, including Commercial Paper. No more than 5% of the market value of the asset class may be invested in debt issued by any domestic or international corporation. Corporate debt must carry an investment grade rating by at least two of three rating agencies (i.e. Moody, S&P and Fitch) at time of purchase. In the case of securities where the rating is split between investment grade and non-investment grade, the higher rating shall define the quality of the security. Rating downgrades subsequent to purchase shall be managed on a case-by-case basis. This policy authorizes investment of up to 10% of the market value of the asset class in non-investment grade debt provided that all such investments shall be made through mutual funds so as to diversify risk. The average credit rating of the total asset class shall be maintained at AA or above.
- Repurchase Agreements. The Foundation may invest in repurchase agreements with banks and Primary Dealers in U.S. Government Securities with which the Foundation has entered into a Public Securities Association (PSA) repurchase contract, which specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 30 days. The market value of securities used as collateral for repurchase agreements shall be monitored daily by the Foundation's staff and will not be allowed to fall below 102% of the value of the repurchase agreement. Repurchase agreements cannot exceed 20 percent of the total market value of the asset class.
- Mutual Funds. For purposes of this Policy, mutual funds shall be considered and treated as investments in common and preferred stocks and therefore subject to the same limitations.
- The Common Fund. The Foundation may invest in any fund of The Common Fund and therefore subject to the same limitations. The Commonfund/Manager will typically take into account, amongst many other investment aspects and fundamentals of a company, the environmental impact of the company in which it invests or hires investment managers to invest in on behalf of Cal Poly Pomona Foundation.
- Alternative Investments that meet the "mission of the University" for the benefit of the University and are authorized by Foundation Board resolution and supported

by appropriate and documented “due diligence” analysis. The value of these alternative investments shall be benchmarked against an authorized investment vehicle of the Foundation. The target value of these investments will be 10% to 15% and the total value shall not exceed 25% of the portfolio. The alternative investments will diversify and reduce volatility of the portfolio.

XI. REBALANCING

The portfolio shall be rebalanced at least annually in accordance with market fluctuations, so it remains within ten (10) percentage points of the ranges of targeted asset allocations and the planned distribution among investment managers, keeping in mind that rebalancing is a function of expected returns, volatility, and return correlations of the portfolio. Rebalancing should also be weighed against the additional costs of frequent trading and internal resources.

Formal asset allocation studies will be conducted at least every three years, with evaluations of the validity of the adopted asset allocation.

XII. SAFEKEEPING AND CUSTODY AGREEMENTS

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the Foundation shall be kept in safekeeping by a third party bank trust department, acting as agent for the Foundation under the terms of a custody agreement or PSA agreement (Purchase Service Agreement). All securities will be received and delivered using standard delivery versus payment procedures with the Foundation's custodial bank and evidenced by safekeeping receipts. Custodial statements are reconciled monthly to transaction schedules.

XIII. INTERNAL CONTROLS

The CFO has developed a system of internal investment and accounting controls while establishing a segregation of responsibilities of investment functions to ensure an adequate system of internal controls over the investment function. The internal controls are identified in a separate document entitled "Investment Practices and Procedures" that identifies the responsibilities for safekeeping, record keeping and reconciliation of the investments and is reviewed annually by the Foundation's independent accountants.

XIV. INVESTMENT POLICY REVIEW

This Statement of Investment Policy shall be reviewed by the Investment Committee at least every three (3) years to ensure consistency with the overall objectives of the preservation of capital, liquidity and return of the investment portfolio. The Statement of Investment Policy shall also be reviewed to ensure its compliance and relevance to the current law, financial and economic trends, and to meet the cash flow requirements of the Foundation. The investment portfolio is audited annually by the Foundation's independent accountants for internal controls and balances.

Cal Poly Pomona Foundation
Investment Practices and Procedures

	Yes	No	N/A	Comments
1. Is authorization for purchases and sales of investments and derivatives vested with the governing board or other responsible committee or official?	X			
Are all investment and derivative transactions reviewed and approved by the governing board?	X			
2. Does a responsible official or investment committee determine that investments and derivatives are of the type permitted by funding sources or donors and that the investment income and gains are used only for purposes authorized by laws, donors, or the governing board?	X			
3. Are employees with investment responsibilities required to take vacations and are other employees required to perform those functions when an employee is absent?	X			
Safekeeping				
4. Are securities adequately protected, preferably in a safe, safety deposit box, or on deposit with a trustee or financial institution?			X	
5. Is it necessary for more than one person to authorize their release from safekeeping or to have access to the safety deposit box?			X	
6. Are such persons authorized by the governing board?			X	
7. Are such persons bonded?	X			
8. Are such persons prohibited from having access to the accounting records?	X			
9. Is access to computerized investment records limited to those with a logical need for such access?	X			
10. Are all securities held in the name of the nonprofit organization?	X			
Recordkeeping				
11. Are detail records maintained that include the following information:				
Description of investment or derivative?	X			
Date of acquisition and purchase price (or fair market value at date of donation)?	X			
Physical location of item; for example, safety deposit box, etc.?			X	
Interest/dividend/income rates and accrual/receipt dates?	X			
Restrictions on segregation or pooling and on disposition or use of income or proceeds?	X			
Lapse date of any restrictions?	X			

	Yes	No	N/A	Comments
12. Are recordkeeping functions for securities and investment income performed by employees who have no access to the securities, cannot authorize security transactions, and have no duties in the cash area?		X		Executive Director and Senior Managing Director/CFO both have to agree and sign for security decisions. This is done through the brokers. Senior Managing Director/CFO has access to the accounting records.
13. As investment income is received, is it deposited in the proper bank account, completely and accurately posted to the investment records, and posted on a timely basis?	X			
14. Are schedules of investments showing all income received prepared monthly and reviewed by a responsible person?	X			
15. Are investment earnings recorded in the proper class of net assets?	X			
16. With respect to restricted investments:				
Is physical segregation of any securities required?	X			
Are all acquisitions and disposals reviewed by the governing board and approved for compliance with restrictions?	X			
Does the governing board review and determine the use of income from investments and proceeds in compliance with any restrictions?	X			
17. Are procedures adequate to identify, record, and segregate investments received under split-interest agreements?	X			
Reconciliation				
18. Are periodic surprise counts of evidence of ownership made and reconciled to detail records and other controls? Not really applicable – all investments held with brokers		X		Investments are reconciled on a quarterly basis and the Senior Managing Director/CFO reviews and the Executive Director approves them. There are no surprise counts.
19. Are periodic statements from outsiders or data resulting from independent request by the governing board (such as broker's position listing, etc.) promptly reconciled to detail records?	X			
20. Is adequate physical control exercised over securities written down to zero?	X			