

**CAL POLY POMONA FOUNDATION, INC.**

**POLICIES AND PROCEDURES**

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<b>Subject:</b>	<b>Investment and Spending Policy for Endowment and Similar Funds</b>	<b>Policy No.</b>	<b>132</b>
		<b>Old Policy:</b>	<b>1996-1</b>
		<b>Date:</b>	<b>05/29/96</b>
<b>Reference:</b>	<b>Policy 1991-1; 275-II-E; 300-II-D</b>	<b>Revision:</b>	<b>12/19/00</b>

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**I. PURPOSE**

To establish policy over the investment of endowment principal consistent with the Cal Poly Pomona Foundation Endowment and Similar Funds Policy. This policy would also be applicable to trust assets held by the Foundation for the University.

Investments will be limited to those firms and/or securities which adhere to the standards of these guidelines, and which meet prudent investment standards.

**II. INVESTMENT OBJECTIVE**

The purpose of endowment funds are to support the University and its mission over the long term. Accordingly, the purpose of this statement is to establish a framework for the investment of endowment assets, and to ensure that the future growth of the endowments are sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment for future generations. This statement will establish appropriate risk and return objectives in light of the fund's risk tolerance and investment time horizon. Asset allocation guidelines and suitable investments shall be established by the Executive Director consistent with the policy.

The objectives of the Endowment Investment Policy shall be defined as follows: **Absolute** - which shall be measured in real (i.e., net of inflation) rate-of-return terms and shall have the longest time horizon for measurement; **Relative** - which shall be measured as time-weighted rates of return versus capital market indices; and **Comparative** - which shall be measured as performance of the Investment Manager(s) as compared to a universe of similar investment funds.

The **Absolute Objective** is to seek an average total annual net return of 5.0%, plus the consumer price index (CPI) for the Los Angeles/Riverside/Orange County Urban Wage Earners and Clerical Workers. This objective shall be measured over an annualized, rolling five and ten year time period; the intent of this objective is to preserve, over time, the principal value of assets as measured in real, inflation adjusted terms.

The **Relative Objective** is to seek competitive investment performance versus appropriate or relative capital market measures, such as securities indices. This objective shall be measured primarily by comparing investment results; over a moving annualized three and five year time period, to:

The Standard and Poor 500 Index as a benchmark for Equity Component;

The Lehman Aggregate Bond Index as a benchmark for the Fixed Income Component;

The 90-Day Treasury Bill Index as the benchmark for the Cash and Equivalent Component.

The **Comparative** performance objective is to achieve a total rate of return that is above the median performance of universe of similarly managed funds.

The endowment and quasi-endowment assets have a long-term, indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. 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 risk as measured by the standard deviation of annual returns. It is expected, however, that both professional management and sufficient portfolio diversification will smooth volatility and help to assure a reasonable consistency of return.

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.

### III. PERFORMANCE EVALUATION

**Foundation Management** shall meet regularly with the Finance/Investment Committee. Investment policy and performance shall be reviewed during such meetings and no less than annually.

**Investment Manager(s)** selected to invest endowment assets shall report to Foundation management quarterly on the performance of the portfolio, including comparative gross returns for the funds and their respective benchmarks; also included will be a complete accounting of all transactions involving endowment investments during the quarter, together with a statement of beginning market value, fees, capital appreciation, income and ending market value, for each account.

This policy recognizes that market conditions may greatly influence the ability of a manager to meet year to year investment goals and objectives. Further, this policy realizes that significant cash flow may also affect the ability of a manager to meet a specific short time objective. Accordingly, the Investment Committee should monitor performance through absolute, relative, and comparative terms over annualized time periods. Absolute results will determine the rate of fund growth, while relative results will provide the endowment investment pool with a view of investment performance

compared to the securities markets and comparative results will present performance as compared to other Investment Managers.

Review of portfolio results in absolute terms shall be made with consideration towards meeting and/or exceeding the expressed minimum real rate of return over a moving five and ten-year time period.

Review of portfolio results in relative terms shall be accomplished primarily by comparing results, over a moving annualized three and five-year time period, to assigned market indices.

Review of portfolio results in comparative terms shall be accomplished primarily through universe comparisons over moving annualized one, three and/or five-year time periods.

#### **IV. SPENDING POLICY**

It is the Foundation's goal to distribute annually a minimum net return of 5% of Endowment Value as established on June 30. Earnings for the fiscal year in excess of the Consumer Price Index (CPI) for the Los Angeles area, as reported in July for the prior 12 months, and in excess of the initial 5%, may also be distributed. Endowment earnings shall generally be available for distribution from those endowments invested for no less than three (3) consecutive months. Exceptions may be authorized per approval by the Executive Director or his/her designee and the Board of Directors. Distribution will occur in the first quarter of each fiscal year, commencing July 1997, based on the level approved by the Board.

It is understood that contractual agreements with significant donors may have spending and investment terms that take precedence over the policies outlined above. The Foundation investment target asset mix should be considered in accepting new endowments with investment constraints.