SONOMA STATE UNIVERSITY | FOUNDATION

INVESTMENT POLICY

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SECTION I – General Guidelines

A. Purpose

The purpose of acquiring charitable funds is to support the University and its mission over the long term. Accordingly, the purpose of this policy is to establish a strategic framework for the investment of SSU Foundation assets. This policy will establish appropriate risk and return objectives in light of the Fund's risk tolerance and long-term investment time horizon. Asset allocation guidelines and suitable investments shall be established by the Foundation consistent with this policy.

B. Scope

Three investment pools (The Fund(s)) exist within the Foundation. Performance objectives and guidelines for each pool are specified in subsequent sections of this policy. These pools are:

- Current Funds Pool
- Endowment Pool
- Special Investment Pool

C. Delegation of Authority

The Board of Directors are fiduciaries and are responsible for the general management of the Fund's assets. The responsibility for the management of the pools has been delegated to the Investment Committee through the Investment Committee Charter. The Investment Committee is also authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- InvestmentAdvisor.
- Investment Manager(s).
- Custodian.
- Additional specialists such as attorneys, auditors, and others may be employed by the Fund to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

1. Responsibility of the Board of Directors

As it relates to the investment of Fund assets, the Board of Directors is responsible for:

- Ensuring that the costs are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution.
- Make reasonable effort to verify facts relevant to the management and investment of the various pools of fund assets.
- Approving investment and spending policies.

2. Responsibility of Investment Committee

- Recommending investment and spending policies to the Board of Directors.
- Recommending the retention and termination of the Investment Advisor.
- Reviewing asset allocation recommendations.
- Reviewing the selection and termination of investment managers.
- Reviewing the performance of the various pools of fund assets to their stated objectives.
- Controlling and accounting for all investment expenses.

3. Responsibility of the Investment Advisor

The Investment Advisor's role is that of a discretionary advisor to the Investment Committee. Specific responsibilities of the Investment Advisor include:

- Assisting in the development and periodic review of investment policy.
- Reviewing the financial markets and the economy in light of each Fund's investment activity.
- Executing the investment portfolio management, asset allocation, rebalancing and other day-to-day responsibilities on a discretionary basis within the guidelines of this Investment Policy Statement.
- Providing due-diligence and ongoing evaluation of investment managers.
- Monitoring the performance of the fund as well as the individual Investment Managers.
- Assisting the Investment Committee in the determination, understanding, negotiation and the accountability of each investment pools investment costs.

D. Relevant Risks

Many types of risk exist which may impact the Foundation's investments, including but not limited to: volatility, inflation, liquidity, and underperforming benchmarks.

The most relevant and comprehensive definition of risk is failing to achieve the Foundation's policy objectives. Anything that increases the likelihood of failing to achieve these objectives can be accurately defined as risky. Therefore, all actions, strategies, and asset classes should be considered or reviewed in the context of whether they will likely enhance or erode the chances of achieving policy objectives, which may vary by pool. Those that increase the probability of attaining goals should not be considered risky.

E. Restrictions

It is recognized that it may be beneficial to consider alternative or non-traditional investments as a risk-adverse strategy in combination with other, more traditional strategies. Alternative investments as defined by the American Institute of Certified Public Accountants (AICPA) are investments in financial instruments without a readily

determinable market value. The Investment Committee, on an individual investment manager basis, may specifically authorize such investments in the Current Funds Pool and Special Investment Pool. Authorization is not required for the Endowment Pool given the discretionary role of the Investment Advisor. Unless special circumstances dictate, none of the four pool's assets are to be invested exclusively in alternative investment vehicles. Specifically, the Endowment allocation to Alternatives must fall within the asset allocation guidelines described in section 3. G "Long-term Strategic Asset Allocation & Asset Allocation Ranges".

In addition, none of the four pool's assets are to utilize loans, evidenced by promissory notes secured by deeds of trust on real property, as a source of investment. In the event that the Foundation makes the decision to approve utilizing these types of investments at a future time, the following actions are required of the Foundation by the State of California Department of Justice/Attorney General's Office:

- Ensure that all proposed borrowers are completely independent from the appraisal process.
- Ensure that the Foundation's loan review procedures guarantee that no conflict of interest exists between the Foundation and the borrower;
- At least 60 days prior to making any decision to enter into any loan agreement(s), secured by real property and a first deed of trust, or any other collateral, the Foundation must obtain training for all current and future members of its Board of Directors from qualified professionals, with specific regard to the issues involved in lending funds secured by real property;
- Ensure that each condition of each loan is memorialized in writing and discussed and considered by the Board of Directors and documented in detail in the Board meeting minutes;
- The Foundation shall not charge less than the commercial bank rate of interest;
- Ensure that restricted funds are used solely for their intended restricted purpose(s);
- For each loan transaction, the Foundation shall obtain the counsel of qualified professionals that are independent from the borrower, for the purpose of reviewing and approving any proposed loan(s);
- For each future loan, the Foundation shall obtain and maintain in separate files the borrower's financial information, including but not limited to the borrower's credit score, debt-to-income ratio, employment information, income tax returns, financial statements, bank statements, and a detailed statement describing the proposed use of the borrowed funds;

- Ensure that all loans and other investments comply with all applicable statutes and regulations, including but not limited to, Corporations Code section 5240;

- Within 60 days of any decision to enter into any loan agreement(s), secured by real property and a first deed of trust, or any other collateral, the Foundation must provide the Attorney General notice of such intent.
- The Investment Advisor will not be responsible for any monitoring or compliance as it relates to the Pooled Endowment Funds being utilized for loans as described above.

F. Valuation of Investments

The Foundation seeks to maintain best practices with regard to the valuation of assets held in each pool. To that end, the Foundation maintains quarterly and annual procedures to insure that all investments are appropriately valued.

Particularly, for alternative investments without readily determinable market values, the Foundation has adopted the following procedures to insure the values reported by the investment manager are reliable:

- Reviewing monthly and quarterly reports provided by the investment manager;
- Gaining an understanding of the investment manager's procedures and processes to insure accurate and reliable financial reporting;
- Participating in direct communication with the investment manager to understand investment strategies, internal controls, valuation policies, and performance results;
- Verifying pricing values reported by the investment manager for marketable securities held within the investment manager's portfolios (i.e. funds of funds).

SECTION II – Current Funds Pool

A. Purpose

The Current Funds Pool is designed to serve as a depository of cash used to support expenditures from Campus Program accounts, Scholarship accounts and the SSU Foundation General Fund operating budget.

B. Investment Objectives

- To maintain safety of principal.
- To maintain funds adequate to meet the working capital needs of the Foundation.
- To maintain a liquid position.
- To provide for immediate transfer of cash to meet operating needs of the Foundation, either by wire or by check.
- To target rates of return equal to or better than the average 90-day Treasury Bill rates.

C. Policy Statement
Foundation Chief Financial Officer, is responsible for maintaining fund balances in accordance with this policy.

D. Approved or Accepted Instruments

- Certificates of Deposit – FDIC insured only (maximum balance per financial institution to be equal to FDIC insurance limits).
- Commercial Paper – Limited to ratings A-1 by Standard and Poor's and P-1 by Moody's.
- U.S. Government and government guaranteed securities.
- Investment grade money market funds.
- Other short term investments may be used if approved by the Investment Committee to be acceptable and in the best interests of the Foundation.

SECTION III – Endowment Pool

A. Uniform Prudent Management of Institutional Funds Act (UPMIFA)
Following the passage of California Senate Bill No. 1329, the State of California has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA guides the management, investment, and expenditure of endowment funds held by charitable institutions, including SSU Foundation. UPMIFA's guidelines apply in the absence of explicit donor restrictions about those activities.

B. Considerations of Prudent Investing
Consistent with UPMIFA, in the absence of a clear donor restriction in the gift instrument, the following factors or actions are to be considered (if relevant) when investing endowment funds:

- Effects of inflation.
- Investment decisions must be made in relation to overall resources of the institution and its charitable purposes.
- No investment decision may be made in isolation, but in light of the fund's entire portfolio.
- Investment should be part of a strategy having risk and return objectives reasonably suited to the fund and the institution.
- Diversify assets as an affirmative obligation unless special circumstances dictate otherwise.

C. General
The Endowment Pool shall consist of two broad categories of endowment funds: (1) Non-Pooled Endowment Funds and (2) Pooled Endowment Funds.

1. **Non-Pooled Endowment Funds**

   Non-Pooled Endowment Funds are not pooled or unitized due to specific donor requirements or unique circumstances. The investment vehicles and goals of each of these funds may vary and will be analyzed and managed on an individual fund basis. The Investment Committee shall oversee the management of these investments and their performance.

2. **Pooled Endowment Funds**

   The Investment Advisor shall oversee the management of these investments and their performance

   a. Time Horizon
      - Perpetuity
   b. Investment Time Horizons
      - Long Term (Strategic) - A full economic/Business cycle of 7 years+
      - Mid Term (Midterm) – 1 to 3 years
   c. Investment Strategy
      - Total Return
   d. Investment Objectives
      - Preservation of purchasing power: To achieve returns in excess of the rate of inflation, net of spending in order to preserve the purchasing power of Fund's assets.
      - Long-Term Growth of Capital: To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of the comparable normal portfolio as defined as a 65% MSCI ACWI/ 35% BC Aggregate Bond blended index.
   e. Return Objectives
      - Real Return Objective: The long run total-return objective for the portfolio shall be inflation, as determined by the U.S. Higher Education Price Index (HEPI), plus 4.5 percent.
      - Normal Policy Benchmark: Meet or exceed the 50% MSCI ACWI Index 20% Bloomberg Barclays US Aggregate Bond Index, 5% HFRI FoF Composite Index, 15% Cambridge Associates US Private Equity Index, 2.5% NCREIF NFI-ODCE Index, and 2.5% Cambridge Private Infrastructure Index, and 5% S&P UBS Leveraged Loan Index on a risk adjusted basis.
      - Peer Comparison: To generate risk adjusted returns in-line or greater than funds of similar size as reported in the NACUBO Study of Endowments (NSE).
   f. Unitization
      - The Pooled Endowment shall be unitized and earnings will be distributed based on the individual fund's percentage share of total

units. Additions to the pool during a month will be assigned units based upon the unit value of the pool at the end of the month.

D. Performance Measurement, Monitoring, and Evaluation

Performance (net of fees) for the Pooled Endowment will be calculated on a quarterly basis by the Investment Advisor. In addition to reporting time-weighted total returns for each investment, a comparison will be made with the relevant market benchmarks.

Peer benchmarking will also be conducted through comparison of investment performance and practices with other higher education institutions. This will be conducted primarily through annual participation in the NACUBO Study of Endowments (NSE). Every California State University institution is encouraged to participate in this annual survey.

E. Risk

The overall risk management benchmark for the Pooled Endowment Fund assets will be considered the "normal portfolio" as defined by a blend of the 70% MSCI ACWI and the 30% BC Aggregate Bonds. The total Fund portfolio volatility target shall be managed to less than 120% of the volatility of this normal portfolio benchmark based upon the Investment Advisors forward looking volatility expectations.

F. Investment Costs/Fees

Prudence is to be conducted in incurring investment costs or fees, authorizing only costs that are appropriate and reasonable in relationship to the assets, the purposes of the funds, and the skills available to the Foundation.

G. Long-term Strategic Asset Allocation & Asset Allocation Ranges

The Long-Term Strategic Targets (7+ years) is the optimal balance between expected risk and return for a long-term investment horizon.

The Investment Advisor may populate any of the asset classes described below with mutual funds, exchange traded funds, separately managed accounts or commingled vehicles (collectively "Investment Fund"). The Board understands and acknowledges that the Investment Advisor has no control over the management or portfolio composition of any Investment Fund. While the Investment Advisor will use its best efforts to utilize funds with investment objectives and policies that are generally consistent with the IPS guidelines, the Board understands that individual Investment Fund's portfolio holdings may not at all times be consistent with the IPS guidelines.

Allocation changes outside of the long-term strategic guidelines will require approval by the Board of Directors.

Asset Class	Long-term Strategic Target	Min Weight	Max Weight	Benchmark	Liquidity
Global Equity	**50%**	**30%**	**60%**	MSCI ACWI Index	Liquid
Global Fixed Income	**20%**	**15%**	**35%**	Bloomberg Barclays US Aggregate Index	Liquid
Absolute Return/Hedge Funds	**5%**	**0%**	**15%**	HFRI FOF Composite Index	Semi-Liquid
Private Equity	**15%**	**0%**	**25%**	Cambridge Associates US Private Equity Index	Illiquid
Private Credit	**5%**	**0%**	**10%**	S&P UBS Leveraged Loan Index	Varies
Real Assets	**5%**	**0%**	**10%**	NCREIF NFI-ODCE Index/Cambridge Private Infrastructure Index	Varies
Cash & Cash Equivalents	**0%**	**0%**	**20%**	90 Day T-bills	Liquid

H. Mid-Term Asset Allocation

Mid-Term asset allocation encompasses the shorter-term (1 to 3 years) asset class and sub-asset class targets are included in the quarterly report supplied by the Investment Advisor and recorded in the minutes of the Investment Committee meetings.

I. Liquidity Guidelines

***Liquid** Assets*	*Assets invested in funds with daily, weekly or monthly liquidity with the underlying assets generally considered to have daily liquidity.*
***Semi-Liquid** Assets*	*Assets invested in funds with quarterly, semi-annual, or annual liquidity with a majority of the underlying assets generally considered liquid.*
***Illiquid** Assets*	*Assets invested in funds that do not provide liquidity within 1 year from the inception of the investment based upon the stated terms of the funds. Typically, the funds have multi-year investment periods with 7 to 12-year life spans.*

In order to meet the overall liquidity needs of the Foundation, no more than 30% of the portfolio, at cost, may be invested in illiquid assets.

Due to the illiquidity of Alternative Investments and the volatility of the capital markets, there may be times when the asset allocation is outside the investment policy

collars. As liquidity opens within the alternative investment programs or market volatility presents re-balancing opportunities, the Investment Advisor will rebalance within the strategic guidelines.

J. Responsible Investing

The Sonoma State University Foundation recognizes the need to invest funds in a responsible and sustainable manner. Subsequent discussions of the board and the Investment Committee will develop specific screens on investments over time and may lead to the development of specific responsible investing criteria for the Pooled Endowment Funds' investments to maintain alignment between investments and university values. The Investment Committee will notify the Investment Advisor in writing of any new restrictions or responsible investing considerations and recognizes that the Investment Advisor will use best efforts to accommodate this request. However, as SSUF's primary fiduciary responsibility is to maximize investment return commensurate with risk, SSUF will strive to find an appropriate balance between maximizing investment return and honoring the values of sustainability through the use of responsible investing or positive screening for Environmental, Social, Governance (ESG) strategies.

K. Rebalancing Policy

The purpose of rebalancing is to control portfolio risk and maintain the policy asset allocations within the targeted ranges. The portfolio will be reviewed monthly and rebalanced as necessary.

The Investment Committee has delegated to the Investment Advisor the execution of rebalancing transactions. These rebalancing shifts may be tactical in nature and must fall within the specified asset allocation ranges. The Investment Advisor may not execute rebalancing that would result in a new illiquid investment program or an allocation outside of the guidelines in this policy statement without the prior approval of the Investment Committee. Illiquid investment programs are defined as programs that do not provide liquidity within one year from the inception of the investment based upon the stated terms of the program.

L. Spending Policy

The long-term objective of the spending guidelines is to maintain the purchasing power of the Pooled Endowment (intergenerational equity) with the goal of providing a reasonably stable annual distribution to support current operations. The annual distribution target is to be determined based on computing 4.0% of a five year rolling average of the market value of the Pooled Endowment. The five year rolling average will be based on the average market value of the previous 20 quarters, with the final quarter for calculation ending on December 31st. This calculated distribution will be made during the subsequent fiscal year and shall include new contributions received or postmarked on or before December 31st.

M. Other Factors on Spending

The spending policy guidelines have been established in accordance with principles of spending outlined in UPMIFA. Spending is governed by a comprehensive prudence standard that permits the Foundation to accumulate or spend so much of the Pooled Endowment – including principal or income, realized or unrealized appreciation – as the institution deems prudent after considering a number of factors. A significant provision in UPMIFA includes the elimination of historic dollar value as a spending restriction. Thus, SSU Foundation may spend the amount it deems prudent after considering the donor's intent and the following economic factors:

- The duration and preservation* of the endowment fund.
- The purposes of the institution and the endowment fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the institution.
- The investment policy of the institution.

**SSU Foundation has interpreted the preservation of endowment funds as requiring the preservation of the fair value of the original gift as of gift date of the donor restricted endowment funds absent explicit donor restrictions to the contrary.*

N. Spending Reserve Policy

The objective of the spending reserve is to provide a source of reliable funding for distributions from the Pooled Endowment. Its goal is to be equal to two year's estimated distributions and may be composed of ordinary income and realized capital gains. It is to be held separately from the Pooled Endowment assets and is to be invested under the same investment objectives and guidelines as outlined in the Current Funds Pool section (section II) of this policy.

SECTION IV – Special Investment Pool

A. General

These accounts accommodate all assets which, either by constraint or by type of investment cannot be included in the other investment pools. These investments facilitate special requirements. The types of investments may vary depending on fund type and donor or other restrictions.

B. Investment Management and Reporting

The Investment Committee shall oversee the management of these investments and their performance.

SECTION V – Policy Intent and Review

This statement of investment objectives and policy is intended for use as a guide to assist the Board of Directors, the Investment Committee, and the Investment Advisor. It should not be considered as a legal document or contractual obligation. It is intended to be a flexible document whose purpose is to assist all parties in the management of the Foundation's investments.

This Investment Policy cannot be amended, added to, deleted or altered without a full discussion and consideration by the Board of Directors and documented in detail in the Board meeting minutes (required of the Foundation by the State of California Department of Justice/Attorney General's Office).

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