

# **San José State University Research Foundation Investment Policy, Guidelines, and Objectives**

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## **Purpose of the Investment Policy Statement**

This statement is issued by the Finance and Investment Committee (the “Committee”) of the San José State University Research Foundation (“SJSURF” or “the Foundation”), which has authority from the Board of Directors of the Foundation (the “Board”) to oversee the investment of the SJSURF Investments (the “Fund”) under the guidelines as specified in this Policy.

This Investment Policy was established to facilitate a clear understanding of how to establish guidelines, and objectives among SJSURF, Investment Consultants, and the Fund's Investment Managers. It also sets forth the guidelines and restrictions to be followed by the Investment Managers. Each quarter the Consultant will review with the Client the performance of the portfolio and each Manager's conformity to the Fund's investment objectives. It is the intent of this Policy to be both sufficiently specific to be meaningful as well as flexible enough to be practical.

## **San José State University Research Foundation**

The San José State University Research Foundation is a non-profit 501(c)(3) California corporation that operates solely for the benefit of San José State University. It is an “auxiliary” of San José State University. Auxiliary organizations at the California State University (CSU) are nonprofit organizations and separate legal entities. They operate pursuant to written operating agreements with the CSU Board of Trustees, have separate governing boards with close connections to campus, and follow all legal and policy rules established by the CSU system and the respective campus administration.

## **Structure and Responsibility**

**Responsibilities of the Board of Directors:** The SJSURF Board of Directors is responsible for adopting the Investment Policy and any subsequent amendments to the Investment Policy, and for receiving and reviewing investment reports.

**Responsibilities of the Finance and Investment Committee:** The Finance and Investment Committee is responsible for monitoring the process of managing the SJSURF's investments, reviewing the performance of outside investment advisors/managers, reviewing and recommending amendments to the Investment Policy, and reviewing investments on an annual basis.

**Responsibilities of the Executive Director:** The Executive Director is responsible for implementing and administering the adopted investment policy and for submitting investment statements and performance analysis as may be requested by the Board of Directors or by the Finance and Investment Committee. The Director of Finance and Accounting works with the Investment Advisor on a daily, or as-needed, basis to maintain acceptable asset allocation on all items listed above the non-traditional investment category on the Asset Allocation Table. For consideration of investments in the Non-traditional category, after working closely with the Investment Advisor for vetting proposals, management will forward deal materials to the

Finance & Investment Committee, at least five days prior to a meeting, of that committee, to allow for a vote on recommended transactions.

## **Investment Plan**

### ***Policy***

The long-term financial objectives of the Fund are to produce a relatively predictable and stable spending stream each year and to grow both the spending stream and the corpus over time, at least as fast as the general rate of inflation, as measured by the Consumer Price Index.

The long-term investment objective of the Fund is to earn an average annual real (i.e. after adjusting for inflation) total return that is at least equal to the Fund's total effective spending rate, net of management fees, over long time periods. Evaluation of progress toward this objective should be made with a long-term perspective.

With this long-term objective in mind, the portfolio shall be invested to provide safety through diversification in a portfolio of common stocks, bonds, cash equivalents, and other investments, all of which may reflect varying rates of return.

The investments shall also be diversified within asset classes (e.g., equities shall be diversified by economic sector, industry, quality, and size). Portfolio diversification provides protection against a single security or class of securities having a disproportionate impact on aggregate performance.

### ***Laws and Regulations***

The management of as well as the investments of the SJSURF Fund are governed by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), subject to certain exceptions, and unless there are specific instructions in a gift instrument that take precedence over UPMIFA. The fiduciary standard of UPMIFA requires the trustees, officers and other fiduciaries responsible for managing and investing funds, to use the care and skill of a reasonably prudent investor.

The Principles of Prudence stated in the UPMIFA include:

- Act in good faith, with the care an ordinary, prudent person would exercise,
- Incur only reasonable costs in investing and managing charitable funds,
- Make a reasonable effort to verify relevant facts,
- Make decisions about each asset in the context of the portfolio of investments, as part of an overall investment strategy,
- Diversify investments unless, due to special circumstances, the purposes of the fund are better served without diversification,
- Dispose of unsuitable assets.

Investment Managers are expected to report performance in compliance with the CFA Institute's Global Investment Performance Standards (GIPS). The Code of Ethics and Standards of Professional Conduct are the ethical cornerstone of The CFA Institute. First created in the 1960s, the Code and Standards are the ethical benchmark for investment professionals.

The CFA Institute Code of Ethics:

1. Place the integrity of the profession and the interests of clients above your own interests
2. Act with integrity, competence, and respect
3. Improve and maintain your professional competence

The objectives of GIPS are:

1. To obtain worldwide acceptance of a standard for the calculation and presentation of investment performance in a fair, comparable format that provides full disclosure.
2. To ensure accurate and consistent investment performance data for reporting, record keeping, marketing, and presentations.
3. To promote fair, global competition among investment management firms for all markets without creating barriers to entry for new investment management firms.
4. To foster the notion of industry “self-regulation” on a global basis.

### ***Conflicts of Interest***

SJSURF fiduciaries are expected to uphold the highest ethical standards, conduct themselves with professionalism and dignity, observe and respect all legal requirements, and carry out the investment activities in order to promote the best interests of the SJSURF.

The fiduciaries are obligated to conduct investment business according to prudent person standards and to disclose or report any conflict of interest which, in their estimation, will hinder judgment or compromise SJSURF interests.

The fiduciaries and agents are expected to be generally knowledgeable and observant of current applicable professional standards established by UPMIFA, CFA Institute, and by those established in the future.

The CFA Institute’s Standards of Professional Conduct address the following:

- Professionalism
- Integrity of the capital markets
- Duties to clients
- Duties to employers
- Investment analysis and recommendations
- Conflicts of interest

### ***Investment Objectives***

The Fund will employ a total return investment policy with the objective of preserving the Fund's capital, protecting the purchasing power of the funds, and providing cash flows to assist in the funding of the SJSURF's spending goals. With these objectives in mind, the SJSURF will have the following long-term risk and return objectives:

**Return:** The return objective for the total fund will be to outperform a custom benchmark made up of 41% BBG Agg Bond; 6% HFRX Global Hedge Fund; 5% BBG US Short TSY (1-3 M); 48% MSCI World over a complete market cycle.

**Risk:** The total portfolio should experience similar risk as measured by the annualized standard deviation than that of a custom benchmark made up of 41% BBG Agg Bond; 6% HFRX Global Hedge Fund; 5% BBG US Short TSY (1-3 M); 48% MSCI World over a complete market cycle.

SJSURF will, from time to time, adjust the permitted allocation to cash in order to accommodate the need for quick exits from asset classes or products in the event of economic events, departures of key fund managers and investors which might adversely impact the overall portfolio should the SJSURF stay invested in that asset instead of making a timely move.

### ***Spending Policy***

SJSURF's policy is to make a distribution each fiscal year that is based on a trailing three-year average market value of the Fund as of December 31 of each year. The distribution will be 2.5% and is made regardless of challenging short-term investment performance where market value may dip below principal value. The annual distribution will be funded through dividends, interest, and/or capital appreciation (i.e., they will be funded on a "total return" basis).

### **Asset Allocation**

The long-term target asset allocation for the investment portfolio is recommended by the Consultant and approved by the Finance and Investment Committee of the SJSURF to facilitate the achievement of the long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds among asset classes may be the single most important determinant of the investment performance over the long run, the assets shall be divided into the following asset classes:

<b>Asset Class</b>	<b>Type</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
<b>Cash</b>	Total Cash	0%	0%	5%
<b>Fixed Income</b>	Investment Grade	24%	24%	100%
	Non-Investment Grade	0%	11%	20%
	International	0%	8%	20%
	Total Fixed Income	32%	43%	100%
<b>Equities</b>	Large Cap US	0%	21%	50%
	Mid & Small Cap US	0%	9%	10%
	Non-US	0%	10%	20%
	Total Equities	0%	40%	50%
<b>Non-Traditional</b>	Real Estate Equities	0%	0%	15%
	Commodities	0%	0%	5%
	Hedge Funds	0%	12%	20%
	Private Equity	0%	5%	20%
	Total Non-Traditional	0%	17%	20%

The actual asset allocation, which will fluctuate with market conditions, will receive the regular scrutiny of the Consultant, who will recommend adjustments to the Committee when appropriate in order to maintain target ranges, in addition to recommending any permanent changes to policy.

### ***Fixed Income***

The purpose of fixed income investments, both U.S. and non-U.S., is to provide diversification and a predictable and dependable source of current income. It is expected that fixed income investments will not be solely 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 total portfolio and provide a deflation hedge.

### ***Equities***

The purpose of equity security investments, both U.S. and non-U.S., is to provide capital appreciation, growth of income, and current income, with the recognition that this asset class carries with it the assumption of greater market volatility and increased risk of loss.

### ***Non-Traditional Investments***

The purpose of using non-traditional investments is to provide an alternative source of return from that of the public capital markets and to potentially reduce the volatility of the overall portfolio by way of further diversification. They may also provide a source of return above the public capital markets. Non-traditional strategies are defined as investment programs that offer the portfolio access to strategies with a lower relative correlation to the public equity and/or fixed income markets.

Non-traditional investments can include but are not limited to the following asset classes: private equity, real estate, hedge fund and other alternatives, hedged equity, real assets, and private credit. Investment vehicles include, but are not limited to, daily-liquid mutual funds, interval funds and limited partnerships. Guidelines will be reviewed with the Committee during the selection of each asset class fund and strategy.

### ***Cash Equivalents / Liquidity***

The percentage of total assets allocated to cash equivalents should be sufficient to ensure enough liquidity to meet any disbursements. Cash equivalents may also be used as an alternative to other investments when the Investment Manager feels that other asset classes carry higher than normal risk. The cash equivalent allocation should normally represent approximately 0% of the total assets at market value. New cash deposited by the SJSURF will be strategically deployed as deemed appropriate by the Consultant.

### ***Rebalancing***

If an asset class is out of the acceptable range, that asset class will be rebalanced to the target weighting. As a general rule, any cash flows in or out of the portfolio will be used to rebalance the total fund in accordance with target asset allocation guidelines.

The process of rebalancing may be implemented over the course of more than one quarter to ensure the most efficient timing around purchases and sales.

## **Manager's Investment Objectives and Guidelines**

*The Investment Manager shall have complete discretion in the management of the assets subject to the guidelines set forth herein.*

### **Manager Guidelines - All Asset Categories**

Mutual funds, commingled funds, or limited partnerships may be used in any category. When one is selected, however, it is expected that the funds will, in general, comply with the Guidelines stated for each asset category. No fund may be used without the approval of the Finance and Investment Committee.

Index funds, exchange-traded funds, passive investment strategies and other similar types of investment vehicles may also be used in any category. As these strategies are generally broader in investment scope, it is noted that the below guidelines may not apply. In addition to the general investment portfolio, index funds, exchange-traded funds, passive and other similar strategies may be utilized in separate investment pools with those investment pools generally following the established asset allocation targets. Deviation from this is allowed with the approval of the Committee.

### **Fixed Income Guidelines**

If a separately managed portfolio is selected for the fixed income allocation, the following guidelines will apply. If a commingled or mutual fund is selected as the investment vehicle, the portfolio guidelines in the fund prospectus should generally comply with the overall nature of the restrictions listed below, unless approved by the Committee.

- Eligible investments include U.S. Government securities, including U.S. Treasuries, Treasury inflation-indexed securities (TIPS), federal agencies, government-sponsored enterprises (GSEs), mortgage-related securities, including federal agencies, GSE-guaranteed or private label mortgage pass-through securities, real estate mortgage investment conduits (REMICs), collateralized mortgage obligations (CMOs), and other structured mortgage securities, to-be-announced (TBA) mortgages (provided they are backed by cash or cash equivalent collateral), commercial mortgage-backed securities (CMBS), corporate obligations, including cumulative capital securities, real estate investment trust (REIT) debt obligations, pass-through certificates, equipment trust certificates, enhanced equipment trust certificates, taxable municipal securities, asset-backed securities (ABS), debt of non-U.S. issuers (Yankees), including corporate, sovereign, foreign agency and foreign local government entities, supnationals, and other securities deemed suitable under these guidelines. Equities are to be excluded.
- Fixed income managers will maintain an average portfolio duration between 70% and 130% of the duration of the Bloomberg Barclays US Aggregate Bond Index. The Investment Manager is expected to employ active management techniques, but changes in weighted average duration should usually be moderate and incremental.

- The average portfolio quality for all US core fixed income managers shall be BBB-/Baa3 or better, as measured by Standard & Poor's, Moody's or Fitch, with a maximum allowable exposure of 25% in below investment-grade securities. Sector-specific or other fixed income managers and strategies may extend this limit with the approval of the Committee. Quality and obligations should be emphasized over maximum return in all short-term cash investments. Investment Managers will have discretion as to the types of obligations used, except that all commercial paper obligations purchased must have minimum respective ratings of P-2 by Moody's, A-2 by Standard & Poor's, or F-2 by Fitch.
- At a minimum, 75% of the total fixed income portfolio will be rated investment grade or higher (BBB- by S&P or Baa3 by Moody's). Deviation from this range is allowed with the approval of the Committee.
- All fixed income Investment Managers in this category are expected to outperform the appropriate index on an after fees basis over rolling three- to five-year periods, as well as the median manager in an appropriate universe.

### ***US Equity Guidelines***

If a separately managed portfolio is selected for the US Equity allocation, the following guidelines will apply. If a commingled or mutual fund is selected as the investment vehicle, the portfolio guidelines in the fund prospectus should generally comply with the overall nature of the restrictions listed below, unless approved by the Committee.

- Subject to limitations noted below, Investment Managers may invest in equity securities listed on the principal U.S. exchanges or traded in the over-the-counter markets, including American Depository Receipts ("ADRs").
- Convertible securities will be regarded as equity securities within the portfolio. Equity Investment Managers may at their discretion hold convertible bond issues with the understanding that the performance of their total account will be measured against the appropriate common stock indices.
- No individual equity commitment in a Manager's portfolio (excepting mutual fund shares) should exceed 15% of the market value of the portfolio and 10% at purchase. No individual equity commitment in a Manager's portfolio should exceed 5% of the issuer's outstanding equity securities.
- It is expected that no equity 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.
- Cash equivalents may be held in the equity portfolio at the Manager's discretion. Managers will be evaluated, however, based upon their performance relative to the appropriate equity index benchmark.
- Over rolling three to five-year periods, each of the equity Managers is expected to outperform an appropriate benchmark, net of fees, as well as the median manager in an appropriate universe.

### ***Non-US Equity***

If a separately managed portfolio is selected for the international equity allocation, the following guidelines will apply. If a commingled or mutual fund is selected as the investment vehicle for international equities, the portfolio guidelines in the fund prospectus should generally comply with the overall nature of the restrictions listed below, unless approved by the Committee.

- An individual issue should be limited to no more than 10% of the market value of the Manager's portfolio.
- No individual equity commitment in a Manager's portfolio should exceed 5% of the issuer's outstanding equity securities.
- International Equity portfolios will be diversified across countries and sectors.
- Convertible securities will be regarded as equity securities within the portfolio. Equity Investment Managers may at their discretion hold convertible bond issues with the understanding that the performance of their total account will be measured against the appropriate common stock indices.
- Cash equivalents may be held in the equity portfolio at the Manager's discretion. Managers will be evaluated, however, based upon their performance relative to the appropriate equity index benchmark.
- All Managers in this category are expected to outperform the appropriate index, net of fees, over rolling three- to five-year periods, as well as the median manager in an appropriate universe.

### ***Social Responsibility***

The Board has discussed and reviewed the SJSURF's role in the areas of Environmental, Social and Governance (ES&G) and Socially Responsible Investing (SRI) as they apply to the investment portfolio of the SJSURF. It is the SJSURF's intention that, as long as returns to the Fund are not detrimentally impacted, the SJSURF prefers to invest with fund managers who have incorporated ES&G and SRI principles in their investment processes.

The SJSURF operates in this manner because:

- We consider this to be consistent with our fiduciary obligations to our constituents in the light of changing external markets and world conditions.
- We expect these actions will lead to better returns for our Fund if prudently and properly managed.
- ES&G and SRI are expected to impact on the long-term sustainability of companies and assets, and therefore form an important input to the risk management process.
- Investment Managers who effectively manage the risks and opportunities arising from ES&G and SRI issues are more likely to be successful over the long term than those that do not.

To encourage Investment Managers to integrate ES&G and SRI the Finance and Investment Committee of the SJSURF takes the following actions:

- Include a clause requiring Investment Managers to consider ES&G and SRI issues within their investment processes in all new or renegotiated fund manager guidelines.

- Assess Investment Managers' abilities to incorporate ES&G and SRI in their investment process as part of the manager assessment and due diligence process.
- Encourage Investment Managers to review the PRI and to source and review ES&G and SRI related research.

SJSURF notes that Investment Managers' integration of ES&G and SRI does not imply the exclusion of the particular companies from the investment universe on ethical grounds. Instead, the integration of ES&G and SRI requires that the impact of any of these issues on the value of a company is included in the valuation process.

Should there be any inquiries, those questions would be directed to the Executive Director of the SJSURF, who will take the request forward to the Finance and Investment Committee for response.

It is the responsibility of the Committee to ensure that the social and ethical goals of the SJSURF are reflected in the portfolio. In this regard, the Committee may issue periodic restrictions on specific investments.

SJSURF will not invest knowingly in countries whose governing regimes are deemed by the Board to deny, through proclamations or constitutional prohibitions, participation by its nationals in the elective processes of the national government or holding of public office because of race, gender or color.

### ***Prohibited Transactions***

Derivatives may be used by the Fund's Investment Managers to hedge existing portfolio investments (e.g. to hedge the currency risk of a foreign stock or bond position) or to create unleveraged investment positions as a more efficient and cheaper alternative to investments that would otherwise be made in the cash market. Derivatives may not be used by marketable securities managers to leverage a portfolio or increase its risk above that of an account with similar objectives that is managed without derivatives. Use of derivatives by an Investment Manager other than as described in this paragraph is permitted only if authorized by the Committee.

No assets shall be invested in private placements or letter stock without prior approval by the Committee. Short selling and use of leverage is also prohibited without prior approval of the Committee.

### ***Consultant Communication***

The Investment Consultant will provide the following:

- The Consultant will provide proactive advice on all aspects of the investment portfolio including, but not limited to, investment policy changes, asset allocation decisions, and investment manager termination.
- Each quarter the Consultant will review and discuss performance measurement and evaluation reporting for each Investment Manager and for the overall Fund, which will include:
  - Performance results in relation to stated objectives and policy guidelines, including both rates of return and an examination of the risk the Investment Manager assumed in order to achieve that return.

- Comparison of individual Investment Manager performance versus the appropriate relative index for the most recent quarter and for the 3 to 5 year period (or for shorter periods as may be appropriate). In addition, each Investment Manager will be evaluated relative to their stated investment style and will be expected to be better than the median manager in the appropriate universe.
- Review and discussion of any changes in economic conditions, investment manager issues, policy guidelines, or situations that might affect the performance.
- Annually, the Consultant will review the Policy and will recommend any appropriate changes. The Consultant will, as appropriate, provide asset allocation studies as well as screen and introduce alternative investment management firms or strategies.

### ***Proxy Voting***

All individual Investment Managers shall be responsible for voting the proxies of their portfolio holdings. Investment Managers shall be required to provide a detailed analysis of all voting activities on an annual basis (calendar year). Investment Managers should vote all proxies to the best of their abilities to increase shareholder value.

### ***Investment Manager Communication***

SJSURF requires that each Investment Manager be responsible for preparing thorough quarterly account statements as well as a summary of all activity. The statements will include:

- Purchases and sales - type of security, number of shares, and price per share.
- Assets - type of security, number of shares, market value.
- Income receipts - both equity and fixed income.
- Bond market values and accrued income.
- Fees and/or commissions

Each Investment Manager is required to be available to meet with the Finance and Investment Committee on an annual basis. Investment Managers are required to inform the SJSURF in writing and within 10 days of any change in firm ownership, organizational structure, professional, personnel, or fundamental investment philosophy.

### ***Investment Manager Termination***

Investment Managers may be terminated or put on a watchlist at the discretion of the Consultant and with the approval of the Committee at any time.

Investment Managers may be placed on a watchlist if any of the following occur:

- Significant out performance or underperformance for any quarter relative to benchmark and peers
- Trailing three-year performance falls below the designated benchmark
- Trailing three-year performance falls below the median investment manager in their particular peer universe
- Ownership structure changes
- Any turnover of key investment decision makers
- Changes in investment process or philosophy including investment style drift
- Investment guideline violation

Once an investment manager is placed on watchlist, the Consultant shall provide an in-depth analysis of the firm with particular attention to pertinent issues that caused the firm to be placed on watchlist. Consultant shall conclude this analysis with a specific recommendation to the Committee. If appropriate, a special meeting shall be held to discuss the status of the Investment Manager.

### ***Transaction Guidelines***

All transactions should be entered into on the basis of best execution (*best realized net price*). Notwithstanding the above, reasonable commissions may be directed for payment of services rendered in connection with the day to day management of assets.

### ***Fund Oversight***

- The Committee will monitor the Fund on a continual basis for consistency of investment philosophy, return relative to objectives, and investment risk. Risk will be evaluated as a function of asset concentration, exposure to extreme economic conditions, and performance volatility. The Committee will normally review the Fund's asset allocation, manager team, and performance quarterly in order to evaluate diversification and progress toward long-term objectives. The Committee will evaluate the Investment Managers' total return without regard to whether the return was in the form of income or capital appreciation. While short-term results will be monitored, it is understood that the objectives for the Fund are long-term in nature and that progress toward these objectives will be evaluated from a long-term perspective.
- Although Investment Managers' investment performance will normally be evaluated over rolling three- to five-year periods, the Committee will evaluate each Investment Manager periodically in order to establish that the factors that led to initial performance expectations remain in place and that each Managers' philosophy is appropriate for the Fund's overall objectives.

