CSU FULLERTON
AUXILIARY SERVICES CORPORATION

INVESTMENTS POLICY #115

Policy Administrator:	Executive Director or designee
Authority:	Section 89900 of the Education Code and Section 42400 of Title 5 of the California Code of Regulations
Effective Date:	12/05/89
Updated:	06/30/24, 02/21/19 (approved 03/21/19)
Cross References:	Investment Committee Charter, CSU Master Investment Policy

Policy Statement: This policy provides guidelines for the prudent cash allocation and investment of funds to maximize the effectiveness and efficiency of the Auxiliary Services' investment management plan. This policy was created to assist the Investment Committee and investment portfolio/wealth managers in effectively supervising, monitoring, and evaluating Auxiliary Services' investment portfolio. This policy further establishes the investment restrictions placed upon managers and outlines procedures for portfolio performance review.

Responsibilities: The primary investment objective is to support the long-term spending requirements of Auxiliary Services and the University while achieving risk-adjusted real returns necessary to preserve and grow capital. The Investment Committee and its investment managers must properly balance the following overall objectives:

<u>Liquidity</u>. The investment portfolio will remain liquid to meet anticipated operating and cash flow requirements.

<u>Return on Investments</u>. The investment portfolio shall be designed to attain a market or better rate of return throughout a full economic cycle.

<u>Preservation of Capital</u>. Sufficient limitations are placed on risks associated with the implementation of the Return on Investments objective and to protect the portfolio through the diversification of assets and setting of specific quality standards.

<u>Diversification</u>. The portfolio manager is responsible for maintaining the balance between fixed income and securities-based equity on set asset allocations.

Scope: The funds identified in this section, and entrusted to the Auxiliary Services, may be pooled in an actively managed portfolio. Auxiliary Services shall meet the standards set forth in the "Prudent Investor" rule which states, "Investment shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

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

- Enterprise Fund
- Real Estate Fund
- General Fund

Delegation & Authority:

Investment Committee. The Investment Committee was established by charter approved by the Auxiliary Services Board of Directors ("Board") to develop investment policies and guidelines for consideration and action by the Board. The responsibilities of the Investment Committee are outlined in the approved charter.

Treasurer/Assistant Secretary & Executive Director

1. The Treasurer/Assistant Secretary is responsible for keeping the Investment Committee informed of all matters affecting the investment program and assisting the Investment Committee in carrying out its responsibilities.
2. The Executive Director plans, formulates, and recommends for approval policies and programs to further the objectives of the investment program.
3. The Executive Director develops a system of internal investment and accounting controls, while establishing a segregation of responsibilities.
4. The Executive Director implements all investment decisions of the Board of Directors and Investment Committee.

Asset Allocation & Rebalancing: To achieve its investment objectives, Auxiliary Services' cash allocation and investments shall be allocated among a number of investment products. The purpose of allocating investment portfolio assets is to ensure proper level of diversification. The Investment Committee will review and recommend asset allocation targets and minimum/maximum ranges at least once a year. Auxiliary Services' investment portfolio is to be rebalanced at least annually in accordance with market fluctuations, so it remains within ten percentage (10%) points of targeted asset allocation ranges 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 (3) years, with evaluations of the validity of the adopted asset allocation.

The target asset allocation for the pooled investment portfolio (Target1) for long-term horizons and Auxiliary Services' total cash position (Target2) to meet short-term needs (less than one year) will be the following:

	Range	Target1	Target2
Cash Equivalents	5-30%	5%	25%
Fixed Income	15-45%	35%	40%
Equity	25-80%	55%	30%
Alternative Investments	0-5%	5%	5%

Investment Guidelines: The general policy is to diversify investments among both equity and fixed income securities to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. No more than five percent (5%) of the asset class may be invested in any single equity or fixed income issuer, excluding U.S. Treasury Securities and U.S. Government Agency Securities, at time of purchase. Exposure to any industry sector shall be limited to twenty percent (20%) of the asset class, excluding U.S. Treasury Securities and U.S. Government Agency Securities, at time of purchase.

Cash Equivalents Guidelines.

- Cash. Funds held in financial institutions and/or in investment portfolio core, checking, and/or savings accounts to meet the operational cash needs of Auxiliary Services.
- Certificates of Deposit. Investments in certificates of deposit with a maximum maturity of one (1) year in any insured bank or savings institution shall be limited to the FDIC insurance maximum.
- Commercial Paper. These investments will generally be limited to rating A-1 (or better) by Standard & Poor's or equivalent.
- U.S. Government and California State Government guaranteed securities, as well as U.S. Treasury Bills/Notes.
- Local Agency Investment Fund (LAIF) established by the State Treasurer (not FDIC insured) for the benefit of local agencies up to the maximum permitted by State law.
- Money Market Funds.

Fixed Income Guidelines. Fixed income securities will be limited to U.S. Treasury or federal agency obligation, State of California obligations, or those U.S. corporate bonds with ratings as prescribed below.

- Certificates of Deposit. Investments in certificates of deposit with a maximum maturity of more than one (1) year but less than three (3) years in any insured bank or savings institution shall be limited to the FDIC insurance maximum.
- U. S. corporate bonds with a maximum maturity of ten (10) years and rated a minimum of "A" or its equivalent by a nationally recognized rating (Standard & Poor's, Moody's and Fitch) service. No more than forty percent (40%) of the portfolio may be invested in these bonds.
- In the event a bond is downgraded below the minimum acceptable bond rating, the investment manager may continue to hold such bond until it is deemed advantageous to dispose of the bond, but under no circumstances should it take longer than six (6) months.
- Approved mutual funds may be invested in below investment grade bonds as part of diversified portfolios.

Equity Guidelines. The equity portfolio should be well-diversified to avoid undue exposure to any single economic sector, industry group, or individual security. The holding of one firm's common stock is not to exceed five percent (5%) of that firm's total common stock outstanding. Auxiliary Services encourages reasonable investment in international securities to enhance diversification and prudent investment. No more than twenty percent (20%) of the equity category is to be invested in international securities. These issues are to possess the same high quality characteristics of domestic securities owned in the portfolio.

Alternative Investments Guidelines. Alternative investments should meet the mission of Auxiliary Services, be for the benefit of Auxiliary Services, be authorized by a Board resolution, and be supported by an appropriate and documented due diligence analysis. The value of these alternative investments shall be benchmarked against an authorized investment vehicle of Auxiliary Services. The total value of all alternative investments shall not exceed five percent (5%) of the portfolio. Alternative investments will diversify and reduce volatility of the portfolio.

Voluntary Employees' Beneficiary Association (VEBA) plan trust. VEBA is a pool of investment funds held outside Auxiliary Services, designed to meet the post-retirement medical obligations of the organization. A Board resolution is required to deposit funds to increase the reserve balance and to withdraw funds for reimbursement of actual costs incurred.

Socially Responsible Investing: The Board of Trustees of the California State University adopted a resolution that urged its recognized CSU Auxiliary organizations which make corporate investments to use statements of socially responsibility and to follow those precepts in examining past and future investments. In response to the Trustees' resolution, the Portfolio Manager and the Investment Committee will endeavor to consider all relevant facts and circumstances in making investment decisions, including the risks and opportunities of environmental, social, and corporate governance features of the companies in which it invests. The Portfolio Manager has fiduciary responsibility to maximize investment returns on the Endowment Fund consistent with the level of risk allowed within this policy, all while ensuring good stewardship of these assets that will enable continued financial support to further the educational mission of California State University, Fullerton.

Administrative & Review Policies: The primary investment objective is to achieve risk-adjusted real returns necessary to preserve and grow capital and to support the long-term spending requirements of Auxiliary Services. The Investment Committee and its investment managers must properly balance the following overall objectives.

Responsibility of Investment Managers. Each investment manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this policy. Specific responsibilities of the investment manager(s) include:

1. Submitting: (a) monthly reports on a timely basis; (b) quarterly reports with investment performance results; and (c) an annual summary report detailing the current portfolio holdings, market value, annualized gain and income from all invested assets, and other information that is customarily on the investment manager's reporting system.
2. Discretionary investment management including the decision to buy, sell, or hold individual securities and to alter asset allocation within the guidelines set by the investment committee.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of the investment process, or the progress, of the Fund's investment management.

4. Informing the Investment Committee of any qualitative change to the investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

Review of Investment Performance: Evaluation of the investment manager's portfolio performance will be on a total return basis. These returns will be viewed in the context of the Fund's objective and relevant market indices. The investment manager(s) shall meet with the Investment Committee or Board of Directors, as requested, at its regularly scheduled meetings to present the above detailed information.

Investment Policy Review. The Investment Committee will review investment portfolios quarterly and meet at least twice a year. This investment policy is to be reviewed by the Board of Directors at least once every three (3) years to ensure consistency with the overall objectives for preservation of capital, liquidity, and return of the investment portfolio. The investment policy shall also be reviewed to ensure its compliance and relevance to the current law, financial, and economic trends, and meet the cash flow requirements of the Auxiliary Services. The investment portfolio is audited annually by an independent auditor for internal controls and balances.

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