INVESTMENT POLICY

PURPOSE: To provide general guidelines, policies and principles for the investment of funds.

EFFECTIVE DATE: Revised - October 24, 2012

I. BACKGROUND

It is the role of the Board of Directors to develop investment goals, objectives and strategies for funds ("Fund") held by the University Corporation, San Francisco State ("Corporation") and to provide direction to investment managers ("Manager") selected to manage these assets. This statement outlines an overall philosophy that is specific enough for the Manager to know what is expected, and sufficiently flexible to allow for changing economic conditions and dynamic securities markets. This statement provides realistic risk policies to guide the Manager toward long-term rate of return objectives, which serve as standards for evaluating investment performance. This statement establishes the investment restrictions placed upon the Manager, and outlines procedures for policy and performance review.

II. POLICY

A. Investment Goals

The main goal of the Corporation Investments is to produce current income to meet spending needs, while preserving the real value of the principal.

B. Investment Return Objectives

The performance objectives of the Fund should emphasize reliability and predictability of return:

1. The return on the fixed income portion of the portfolio should exceed the Barclays Capital U.S. Intermediate Government/Credit Bond Index on a consistent basis over the course of a business cycle.

2. The return from the equities portion of the portfolio should exceed the S&P 500 Index on a consistent basis over the course of a business cycle.
C. Permitted Investments

1. Approved Investments

   a) Fixed Income
      • U.S. Government bonds and notes
      • Municipal bonds
      • Investment grade corporate bonds
      • High Yield Bonds
      • Preferred Stocks
      • Mortgage and asset backed securities
      • Foreign bonds
      • Cash balances held in money market or other suitable cash equivalent instruments
      • Mutual Funds composed primarily of the fixed income assets listed above

   b) Equities and similar securities
      • Domestic common stock of corporations domiciled in the United States or Canada and listed on the NYSE, AMEX or the NASDAQ exchange
      • Foreign common stock of corporations domiciled outside the United State
      • Real Estate Investment Trusts (REITs) listed on above exchange
      • Mutual funds composed primarily of assets listed above plus foreign common stock of corporations listed on foreign exchanges, including those in emerging markets

   c) Alternative Investments
      • Hedge Funds
      • Venture Capital and Private Equity Funds
      • Commodity and Real Asset Funds
      • Direct Real Estate Investments and Real Estate Partnerships

2. Investment Quality

   a) Fixed Income
      i. Except for non-investment grade bonds, fixed income assets must be rated at least investment quality by one nationally recognized ratings agency.

      ii. Securities rated BBB are limited to 10% of the total portfolio (including all assets).

   b) Equities - Individually held equity investments should have adequate liquidity.

   c) The average amount of leverage among alternative funds (combined) shall not exceed 60%.

   d) The total allocation by SF State (Foundation and UCorp) shall not exceed 10% of the total assets of the fund. If the amount is separately managed it should not exceed 10% of similarly managed accounts.
3. **Concentration of Assets**

   a) To avoid the risk of concentration, individual bond positions other than obligations of the U.S. government should not comprise more than 5% of the total fixed income portion of the portfolio.

   b) To avoid the risk of concentration, individual equities should comprise no more than 5% of the total market value of the stock portfolio. In addition, investment in any one stock is not to exceed 5% of that corporation’s outstanding common stock.

**D. Asset Allocation**

1. **Targets and Ranges**

   The asset allocation of the Corporation will depend upon the expected term of the investment. Invested funds will be classified as long term along with other investments that will not be due for more than seven years. Medium term investments will involve projects where the principle must be returned in three to six years and short term investments are due in less than two years. In the case of short and medium term investments fixed income durations may be set to match the expected date when the funding will be needed.

   **Long Term (Seven years or more)**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Target</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Stocks</td>
<td>35%</td>
<td>5-60%</td>
</tr>
<tr>
<td>Foreign Stocks</td>
<td>10%</td>
<td>0-20%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>34%</td>
<td>15-70%</td>
</tr>
<tr>
<td>Money Market</td>
<td>5%</td>
<td>0-100%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>16%</td>
<td>0-35%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

   **Medium Term (Three to Six years)**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Target</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Stocks</td>
<td>20%</td>
<td>0-40%</td>
</tr>
<tr>
<td>Foreign Stocks</td>
<td>5%</td>
<td>0-10%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>50%</td>
<td>0-60%</td>
</tr>
<tr>
<td>Money Market</td>
<td>20%</td>
<td>0-100%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>5%</td>
<td>0-10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>
Short Term (Two years or less)

<table>
<thead>
<tr>
<th>Investment</th>
<th>Target</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Stocks</td>
<td>10%</td>
<td>0-25%</td>
</tr>
<tr>
<td>Foreign Stocks</td>
<td>0%</td>
<td>0-10%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>50%</td>
<td>0-70%</td>
</tr>
<tr>
<td>Money Market</td>
<td>40%</td>
<td>0-100%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>0%</td>
<td>0-10%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

2. **Liquidity**

In addition to the above targets, the Corporation will maintain sufficient liquidity to maintain all of its current spending needs and will hold assets in liquid funds and securities (e.g., LAIF, money market funds, bank accounts, short term securities or CDs) as necessary.

3. **Asset Rebalancing**

The Asset Allocation guidelines are established to maintain the long-term strategic asset allocation of the Fund. The rebalancing process results in the movement of assets from recently strong performing asset classes, which may be overvalued, into weaker performing asset classes, which may be undervalued. The need to rebalance could be occasioned by the disproportionate movement of asset prices within a class relative to the movement of prices in other classes, significant inflow of new gifts and/or extraordinary funding requirements of participating projects. Over the long term, this discipline is expected to enhance portfolio returns while reducing risk (volatility) by realizing gains in one asset class and using those funds to make additional purchases in the undervalued asset class.

To minimize expense, rebalancing shall occur in the following order. First, Contributions will be used to maintain target allocations; second, funds will be transferred among asset classes. Rebalancing should be done at least annually, following the end of the fiscal year.

E. **Custodial Arrangements**

A custodian or custodians approved by the Board will hold all securities. Such a custodian must be registered and licensed by appropriate bodies, e.g. Federal Reserve Bank, Securities and Exchange Commission. The terms and conditions of this custodial relationship shall be detailed in a written agreement with the custodian.
F. Investment Managers

The Finance Committee will recommend for Board approval managers for a specific investment style or strategy provided that the overall objectives of the Fund are satisfied.

All investment managers will acknowledge, in writing, the receipt of this statement and the acceptance of its terms. If any investment manager or consultant believes at any time that changes to this statement, or the fund's asset allocation mix, are advisable, it will be the manager's or consultant's responsibility to recommend such changes in writing and in a timely manner for consideration by the Board.

Each investment manager is expected to promptly advise the Corporation in writing of any material change in its investment philosophy, decision making structure and procedures, or investment personnel with primary responsibility for the Corporation’s portfolio.

At the end of each calendar quarter, the investment manager shall report the performance of the Corporation’s portfolio; this report will be reviewed by the Board. Within 30 days of fiscal year-end, the investment manager will advise the Board of Directors in writing of investment performance for the preceding year, describing the extent to which each of the Corporation’s investment objectives and guidelines were accomplished. Email is sufficient for any notification covered in this section.

G. Social Responsibility Policy and Prohibited Investments

In its efforts to address social responsibility investing issues, the Corporation shall be guided by two basic but interdependent principles:

1. The Corporation shall exercise responsible financial stewardship over its financial resources.

2. The Corporation shall exercise ethical and social stewardship in its investment policy.

The Corporation is sensitive to the issue of social responsibility when making investment decisions. The Corporation Board continues to monitor and take into account a wide variety of information to help it in determining what it considers to be socially responsible investments. In carrying out its socially responsible investment policy, the Board will continue to give specific instructions to its investment managers about investing or not investing in particular products, companies, and countries. In accordance with this policy:

1. The Corporation will not invest knowingly in countries or companies whose governing regimes are deemed by the Corporation’s Board of Directors to deny civil or human rights.

2. The Corporation will not directly invest in stocks of tobacco companies although it may hold some tobacco stocks in commingled funds.
III. IMPLEMENTATION

Funds shall be invested in accordance with this policy and in compliance with State and Federal laws and regulations. The Manager will have full discretion to invest the assets of the Fund in a prudent manner, consistent with the Fund's objectives and established guidelines.

This policy statement shall be reviewed on an annual basis. This review will focus on the continued feasibility and the appropriateness of the asset allocation policy, the investment objectives, the investment policies and guidelines, and the investment restrictions.

The Finance Committee is charged with performing this review and shall recommend appropriate changes to the Board for approval. Copies of this policy statement (and any subsequent amendments) will be provided to all investment managers whenever changes are approved by the Board.