

**UC SAN DIEGO FOUNDATION
ENDOWMENT INVESTMENT AND
SPENDING POLICIES**

PURPOSE

This Policy statement includes both objectives and guidelines intended to apply to the pooled endowment investment assets (“Endowment”) in the UC San Diego Foundation. This Policy is designed to:

- Establish appropriate risk and return objectives in light of the risk tolerance and the perpetual investment time horizon for the Endowment.
- Establish asset allocation guidelines and suitable investments for the Endowment, consistent with the risk and return objectives of the policy.
- Describe the roles and responsibilities of parties overseeing the Endowment.
- Provide a framework for ongoing monitoring of investment performance of the Endowment.

I. GENERAL INVESTMENT AND SPENDING POLICY

The UC San Diego Foundation has adopted the principles of and requirements under the Uniform Prudent Management of Institutional Funds Act. Endowment investment policy, and decisions for asset placement, will be based on a long-term investment strategy appropriate for an institutional endowment, which is held in perpetuity. The Endowment will be invested to maximize long-term total return under the parameters described below. A spending rate will be determined annually.

The Endowment investment policy shall serve to diversify investments and provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The Endowment spending policy will be determined giving consideration to achieving an objective of an estimable revenue stream for fund holders that retains its purchasing power.

II. ENDOWMENT RISK AND RETURN GOALS

The primary investment goal is to maximize the return on Endowment assets, utilizing a diversified portfolio of securities that delivers return in the form of both asset appreciation and income. The return performance is expected to preserve or enhance the real value of the endowment and, thus, the purchasing power of the endowment spending released (including administrative costs).

The **Acceptable Risk Profile** for the Endowment should generally be to assume the lowest possible risk for the return goal desired. While negative returns in any single year may be unavoidable, over longer terms, asset allocations should be selected which are expected to achieve overall positive portfolio returns. In order to assess and monitor portfolio risk, the Investment/Finance Committee will review its asset allocation policy and asset allocation at least annually.

Risk can be construed to include multiple different outcomes including loss of principal, failure to meet an expected return or most commonly volatility of investment returns around an expected mean (standard deviation). The Investment Committee's policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed. Investment committee members, with the help of their investment consultant and investment managers, are responsible for understanding the risks inherent in various investment strategies, ensuring that they are properly compensated for these risks, and measuring and monitoring them. Risk is considered in the hiring of new investment managers as well as in the continued monitoring of existing investment managers and the overall portfolio. Risk is also considered in the selection of individual asset classes and the overall portfolio asset allocation. Most importantly, the level of overall portfolio risk taken should be consistent with the overall return objectives of UC San Diego Foundation.

The **Return Goal** is to achieve an average total annual net return equivalent to the endowment spending rate (noted below) adjusted for inflation. (Inflation is defined as the Consumer Price Index, US Department of Labor, Bureau of Labor Statistics US City Average, All Items, Base Period 1982-1984 =100). This goal shall be measured over an annualized, rolling five and ten year time period.

The **Relative Return Goal** is two-fold:

- 1) To meet or exceed the overall performance of the GEP of the UC Regents, net of investment management and consultant fees, and
- 2) To meet or exceed market performance benchmarks versus appropriate or relative capital market measures, such as securities indices. Achievement of the Relative Performance Goal shall be measured by comparing investment results over the current quarter, and moving annualized one, three, and five year time periods to a weighted portfolio benchmark.

The overall benchmark will be created by weighting appropriate indexed returns (e.g., Lehman Bros. Aggregate, S&P 500, etc.) according to the asset class weightings in the target allocation. The overall benchmark for a period may be adjusted, should there be disparities in asset allocation during any single time frame caused by very large inflows or outflows of funds in the portfolio and/or tactical allocation that would cause the target benchmark to be inappropriate for the time period being examined.

III. SPENDING POLICY

The Endowment Spending Policy (stated as a percentage) will be reviewed annually and set in the spring of each year (with an effective date of the upcoming July 1 to June 30 fiscal year) by recommendation of the Investment/Finance Committee to the Board of Trustees. An endowment administration cost recovery fee of 40 basis points will be included in the spending policy and will be paid by the Foundation to the UCSD campus as a funding source for operating costs of External Relations.

Endowment spending made available to fundholders will be in an amount that the Board deems prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Prior to the beginning of each fiscal year, endowment fund holders will be notified of projected spending for that fiscal year.

Spending will be calculated annually, and made available at least quarterly, based on the following formula:

$$\begin{array}{rclcl} \# \text{ Units owned} & & & & \\ \text{by the fund} & \times & 5 \text{ year} & = & \text{Average} \\ & & \text{Average Unit Value}^1 & & \text{Market Value} \\ \\ \text{Average} & \times & \text{Spending} & = & \text{Actual Dollar} \\ \text{Market Value} & & \text{Policy} & & \text{Distribution to} \\ & & & & \text{Endowed Funds} \end{array}$$

IV. RESPONSIBILITIES

The following parties associated with the Endowment shall discharge their respective responsibilities in accordance with all applicable fiduciary standards as follows: (1) in the sole interest of the Endowment's beneficiaries; (2) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims; and (3) by diversifying the investments so as to minimize the risk of large losses.

- A. Board of Trustees: The Board of Trustees has overarching fiduciary responsibility for the assets of the Foundation, including the Endowment. (The Board also recognizes that it shares this fiduciary role with the UC Regents.) The Board is responsible for determining and approving, upon recommendation by the Investment/Finance Committee, the Foundation's Investment Policies, overall asset allocation ranges and targets; risk/return objectives, spending policy, setting guidelines for reporting and monitoring performance, and the use of any consultants. In determining these items, the Board will give consideration to the

¹ In order to provide a timely estimate of spending to fundholders each Spring, the unit values of the pool each December 31 will be used to calculate the five year average unit value.

UC Regents policies, objectives, targets and ranges for its General Endowment Pool (GEP).

B. Investment/Finance Committee: The members of the Investment/Finance Committee are delegated authority by the Board of Trustees to provide oversight of the day-to-day administrative issues associated with the Endowment's assets. The Committee has the authority to implement this Investment and Spending Policy; specific responsibilities of the Investment/Finance Committee include the following:

- Establish and, when deemed necessary, recommend modifications to the Endowment Investment and Spending Policy to the Board for approval.
- Select specific investments, professional investment managers, brokers, and administrators, and negotiate and monitor terms and conditions of their services.
- Cause investment purchases to be made, via staff, in accordance with policy, and instruct or assist staff in carrying out policy as needed.
- Monitor performance of the Endowment against appropriate benchmarks at least quarterly, and more often if necessary.
- Assure proper custody of the investments.
- Report the Endowment asset allocation, and performance results at least quarterly to the Board of Trustees on the Endowment, and as requested to the UC Treasurer or UC Regents.
- Retain an investment consultant to assist with this process as necessary.

C. Investment Consultant: When appropriate, an investment consultant will be charged with the responsibility of advising the Investment Committee on investment and spending policy, asset allocation, manager structure, investment manager selection, performance analysis and monitoring and education. The investment consultant must agree to act as a "fiduciary" to the Endowment.

D. Investment Manager(s): When appropriate, and based upon the advice of the investment consultant, investment manager(s) will be hired and delegated the responsibility of investing and managing the Endowment's assets in accordance with this Investment Policy and all applicable law. Each investment manager must either be (1) registered under the Investment Company Act of 1940, (2) registered under the Investment Advisors Act of 1940, (3) a bank, as defined in that Act, (4) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the Endowment's assets, or, (5) such other person or organization authorized by applicable law or regulation to function as an investment manager. Each investment manager investing a separately managed account on behalf of the Endowment must acknowledge in writing that the manager is a fiduciary with respect to the Endowment. Managers will be monitored and will adhere to the Guidelines for Investment Managers in Appendix C of this Policy.

V. PRUDENCE, ETHICS AND CONFLICT OF INTEREST

All fiduciaries involved in the investment process shall act responsibly. The standard of prudence to be applied to the Investment/Finance Committee, the investment consultant, each investment manager, and each other fiduciary with discretion respecting management of Endowment assets shall be the “prudent investor” rule. This rule requires each fiduciary to invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the fiduciary shall exercise reasonable care, skill, and caution. A fiduciary’s investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.

VI. ENDOWMENT ASSET CLASS GUIDELINES

The Endowment assets may be invested in any combination of individual securities, separately managed accounts with investment managers, commingled funds, mutual funds, or in the pools or separate programs offered to campus foundations as managed by the UC Treasurer (including the GEP). In cases of the use of investment managers, they will have full discretion over their portfolio management decisions in accordance with guidelines provided by this Policy. In the case of commingled funds and mutual funds, their management will be carried out within their respective structures and in accordance with the prospectus material published.

The general categories of Endowment investments that may be deployed follow. The asset allocation ranges and targets for each category, along with additional specifics are stated in Appendix A and B of this Policy.

A. Equity Investments:

The overall return objective of the equity portion of the portfolio is to provide above median long-term total returns relative to the appropriate index and relative to the returns of other funds with similar objectives and investment styles. The equity portion shall be invested under the following guidelines:

1. Allowable investments include US and non-US publicly traded common stocks, preferred stocks, stock warrants and rights, convertible bonds, as well as REITs (real estate investment trusts) and any other investments as allowed by respective prospectuses.
2. Equity securities shall be diversified in number so that no one commitment to any company shall exceed 5% of the value of the Endowment’s equity portfolio based on cost at the time of acquisition or 7% at market value of the equity portfolio.

3. The Endowment shall not hold more than 5% of the equity securities, or those securities convertible into equity securities, of a single issuer.

B. Fixed Income Investments:

The overall return objective of the fixed income portion of the portfolio is to provide above median long-term total return relative to an appropriate index and the returns of other fixed income funds through traditional fixed income management techniques. The fixed income portion shall be invested under the following guidelines:

1. Allowable investments include US and non-US corporate and government bonds, asset-backed securities and any other fixed income investments as allowed by respective prospectuses, including inflation-protected securities.
2. With the exception of U. S. Government and Agency issues, no more than 10% of the bond portfolio at market will be invested in the securities of a single issuer or 5% of the individual issue.

C. Cash

New endowed cash gifts shall be invested for up to one month in the STIP fund as managed by the UC Treasurer until they can be invested in accordance with this Policy.

D. Alternative Investments:

Alternative investments are non-traditional investments that have low correlation with most traditional asset classes. The Investment/Finance Committee recognizes that additional investment classes may reduce the Endowment's investment performance volatility and/or enhance overall performance. It is the intent of the Investment Committee to place a portion of assets, as specified in Appendix B, in alternative investment strategies.

Definitions, as well as manager performance objectives, for alternative asset classes can be found in Exhibit B of this Policy.

E. Policy Changes:

The investment consultant shall advise the Investment/Finance Committee of any restrictions within this Policy that may prevent the investment manager(s) from obtaining the objectives and goals set forth herein. Any violation of the investment guidelines or other sections of the Policy discovered by the investment consultant in the preparation of its regular performance review shall be reported immediately to the Investment/Finance Committee and discussed at their next regularly scheduled meeting.

F. Investment Policy Review and Revisions:

The Board of Trustees reserves the right to amend this Policy at any time they deem such amendment to be necessary, or to comply with changes in federal law as these changes affect the investment of the Endowment assets.

The Investment Policy shall also be reviewed annually to ensure compliance and relevance to the current law, financial and economic trends, and to meet the needs of the Endowment.

VII. ENDOWED ASSETS RECEIVED BY GIFT

Certain endowed gift assets may be received by the Foundation from time to time with a limited means of liquidation, or that the Investment/Finance Committee determines should be held and retained as the sole endowed asset of a particular fund. Such assets and funds will be excluded from this policy. Spending for that fund will be determined by a separate action of the Investment/Finance Committee, depending on the type of asset involved.

ASSET ALLOCATION

The target asset allocation for the Endowment is determined by the Investment/Finance Committee to facilitate the achievement of the Endowment investment objectives within the established risk parameters. Allocation of funds between asset classes may be the single most important determinant of the investment performance over the long-term.

The Endowment assets shall be divided into the following general asset classes, which are further described in Appendix B. The targets and ranges for each class are included.

Asset Class	Permissible Range	Target Asset Allocation
Large Cap US Equities	12-40%	16%
Mid/Small Cap US Equities	5-15%	8%
U.S. Equities	17-55%	24%
International Equity	10-25%	17
Emerging Market Equity	3-10%	5
Non-US Equities	13%-35%	22%
Total Equities¹	42%-72%	46%
US and Non US Fixed Income	8%-28%	10%
Real Estate	2-15%	10%
Private Equity	2-15%	7%
Absolute Return	5-25%	20%
TIPS & Real Return ²	0-10%	7%
Total Alternative Investments	10%-50%	44%

¹ Permissible range for equities as an asset class is limited to that of The Regents Investment Policy with Respect to UC Campus Foundations.

² TIPS/Real Return is classified by the UC Treasurer's Office in the UC GEP as Fixed Income. If this class were included in our Fixed Income category, the high end of the permissible range would be 10% higher (8-38%), which is in line with The Regents Investment Policy with Respect to UC Campus Foundations.

Liquidity:

Foundation staff will monitor cash flow on a regular basis, and sufficient liquidity shall be maintained to ensure spending policy is met for fund holders. When withdrawals become necessary, staff will notify the investment manager(s) as far in advance as possible to allow them sufficient time to liquidate assets as necessary.

Rebalancing

Foundation staff will rebalance the investment portfolio on an ongoing basis (and no less than quarterly) as new gifts to the endowment are received, or market value fluctuations occur. Rebalancing will be based on the recommendations of the investment consultant and approved by the Investment/Finance Committee. The portfolio is expected to remain within the boundaries of the ranges around the target asset allocation. All new investments or rebalancing will be reported to the Investment/Finance Committee at least quarterly.

Formal asset allocation studies may be conducted at least every two years, with annual evaluations of the validity of the adopted asset allocation.

ASSET CLASS DEFINITIONS, PERFORMANCE MEASUREMENT AND RETURN EXPECTATIONS

Performance measurement shall be based on total rate of return and shall be monitored over a sufficient time period to reflect the investment expertise of the investment product and/or manager(s) over one full market cycle, or five years, whichever is less.

Equity

U.S. Large Cap Core Equity

Investments will be primarily in stocks of large and medium companies. U.S. large cap core manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Volatility (risk) should be similar to the S&P 500 Index.
- If Large Cap Core Equity investment is indexed:
 1. Total return gross of fees to match the S&P 500 index over a market cycle or five years, whichever is less.
- If Large Cap Core Equity investment is actively managed:
 1. Total return net of fees to exceed the S&P 500 index by at least 25 basis points over a market cycle or five years, whichever is less; and
 2. Total return to rank above the 50th percentile in a universe of other large cap core funds.

U.S. Mid Cap Core Equity and Small Cap Core Equity

Investments will be primarily in stocks of medium and small companies. U.S. mid cap core equity and small cap core equity manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Total return net of fees to exceed the Russell 2000 Index, Russell 2500 Index or Russell Mid Cap Index, as applicable, by at least 25 basis points over a market cycle or five years, whichever is less;
2. Volatility to be comparable to the Russell 2000 Index, Russell 2500 Index or Russell Mid Cap Index, as applicable; and
3. Total return to rank above the 50th percentile in a universe of other small or mid cap funds, as applicable.

International Equity – Developed Markets

Invests primarily in equities of non-U.S. companies. May be actively managed or indexed. International equity manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Total return net of fees to exceed the MSCI Europe Asia and Far East (EAFE) Index Net or MSCI All Country World ex-U.S. (ACWI ex-US) Net, as applicable, by at least 25 basis points over a market cycle or five years, whichever is less;
2. Volatility (risk) to be comparable to the MSCI EAFE Index or MSCI ACWI ex-US, as applicable; and
3. Total return to rank above the 50th percentile in a universe of other international equity funds.

International Equity - Emerging Markets

Emerging Markets manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Total return net of fees to exceed the MSCI Emerging Markets Free Index by at least 200 basis points over a market cycle or five years, whichever is less;
2. Volatility to be comparable to the MSCI Emerging Markets Free Index; and
3. Total return to rank above the 50th percentile in a universe of other emerging markets equity fund managers.

Fixed Income

Investments are fixed income securities, including US and Non US corporate bonds and government debt instruments, Treasury Inflation-Protected Securities (TIPS) and mortgage-backed issues. Fixed income manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Total return net of fees is to exceed the Lehman Aggregate Bond Index by 25 basis points over a market cycle or five years, whichever is less;
2. Volatility (risk) to be comparable to the Lehman Aggregate Bond Index; and
3. Total return to rank above the 50th percentile in a universe of other fixed income managers.

Alternative Strategies

This class may include real estate, private equity, absolute return funds, real return funds, or other investments the trustees deem appropriate. They may be actively managed or indexed.

Public Real Estate Securities

Invests primarily in securities related to real estate. Real estate manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Total return net of fees to exceed the National Association of Real Estate Investment Trusts (NAREIT) Index or Wilshire Real Estate Securities Index, as applicable, by a minimum of 25 basis points over a market cycle or five years, whichever is less;
2. Volatility (risk) to be comparable to the NAREIT Index or Wilshire Real Estate Securities Index, as applicable; and
3. Total return to rank above the 50th percentile in a universe of similar real estate funds.

Private Real Estate

Investments in many individual properties, accessed through commingled funds, separate accounts or direct investments. Common property types associated with real estate investing are Apartments, Office Buildings, Retail Centers, and Industrial Parks. Domestic Real Estate investment portfolios generally own many geographically diverse properties across the United States. Real estate manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return on the NCREIF by at least one-half percent per annum;
2. Rank in the top half of a nationally recognized universe of real estate managers; and
3. Exceed the increase in the CPI by at least three percent per annum.

Private Equity

Investment in both Venture Capital and Buyouts. Typically Private Equity is accessed through a fund of funds approach. A fund of funds is when managers invest in a group of funds or managed accounts, each of which creates funds of managers, creating a diversified investment vehicle for its investors. Private Equity manager(s) will be evaluated quarterly. Private Equity/Venture Capital objectives include, but are not limited to, the following:

1. Exceed the increase in the S&P 500 Index by at least five percent (5%) annually net of fees; and
2. Exceed the Venture Economics Private Equity median return for the appropriate vintage year.

Absolute Return Strategies

A type of hedge fund of funds that uses different strategies, such as short selling and hedge equities to seek positive returns, regardless of market direction. The rewards of hedge fund managers are usually heavily geared towards the performance of their funds. A fund of funds is when managers invest in a group of single manager hedge funds or managed accounts, which may utilize a variety of investing strategies, creating a diversified investment vehicle for its investors. Absolute Return manager(s) will be

evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the Lehman Aggregate Bond Index by at least three percent over a market cycle;
2. Rank in the top half of a nationally recognized universe of absolute return managers;
3. Exceed the increase in the CPI by at least four percent per annum; and
4. Exceed a flat rate of return of 10% over a three- to five-year period.

TIPS and Real Return (All Asset Strategies) ¹

TIPS and Real return investment strategies, target a return that exceeds inflation by a premium (e.g., CPI + 2-5%). These managers typically invest in a core of “real” return assets, including Treasury Inflation-Protected Securities (TIPS), structured notes, asset backed securities (adjustable rate mortgages), commodities, and real estate, as well as traditional asset classes such as equity and fixed income. Additionally, the managers attempt to add value by tactically allocating to asset classes they perceive to be undervalued, thus contributing to the “real” return orientation. Real return managers will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Total return net of fees to exceed the increase in the Consumer Price Index (CPI) by at least 300 to 500 basis points over a market cycle or five years, whichever is less.

¹ The UC Treasurer reports TIPS as Fixed Income and not as an alternative. Reporting to the UC Regents will be adjusted accordingly to ensure consistency.

GUIDELINES FOR ACTIVE INVESTMENT MANAGERS

- A. Proxy Voting: The investment manager(s) shall have the sole and exclusive right to vote any and all proxies solicited in connection with the portion of the securities held by the Endowment under their management. The investment manager(s) shall furnish the Investment/Finance Committee with a written proxy voting policy statement, and shall keep records with respect to its voting decisions and submit a report annually to the Investment/Finance Committee summarizing votes cast.
- B. Trading and Execution: The investment manager(s) shall use their best efforts to obtain execution of orders through responsible brokerage firms at the most favorable prices and competitive commission rates.
- C. Investment Performance Review and Evaluation:
1. With the advice and analysis provided by the investment consultant, the Investment/Finance Committee will review the investment results of the investment manager(s) at least quarterly. Performance comparisons will be made against a representative performance universe and the performance objectives set forth in this policy statement.
 2. The Investment/Finance Committee, with the assistance of the investment consultant, shall periodically review the qualitative developments of each investment manager. This evaluation should include:
 - Changes in the investment philosophy
 - Changes in the organizational structure or financial condition (including any significant changes in total assets under management)
 - Changes in key personnel
 - Changes in the fee structure
 - Advice from investment consultants who are retained by the Investment/Finance Committee and any other qualities that the Investment/Finance Committee deems appropriate.

This review should also include an assessment as to whether each investment manager has operated within the scope of this Policy.

3. The investment manager(s) must disclose all major changes in organization or investment philosophy to the Investment/Finance Committee members within 30 days. Further, all registered investment advisors must present updated ADV-II forms on an annual basis to the Investment/Finance Committee.

4. It is expected that professional management responsible for these funds shall report not less than quarterly on the performance of the portfolio, including comparative gross returns for the funds and their respective benchmarks, as well as a complete accounting of all transactions involving the Endowment's investments during the quarter, together with a statement of beginning balance, fees, capital appreciation, income and ending balance for each account.

D. Corrective Action:

Corrective action should be taken naturally as a result of the ongoing review process of investment managers. While there may be unusual occurrences at any time, the following are instances where corrective action may be in order:

2. Any organizational change that may materially affect the management process will be noted by the investment management and discussed with the Investment/Finance Committee. If the Investment/Finance Committee deems appropriate, the investment manager may be called upon to discuss changes.
3. Violation of terms of contract without prior approval for the Investment/Finance Committee constitutes grounds for termination.
4. As part of its overall asset allocation strategy, the Investment/Finance Committee will select managers with certain styles and approaches to portfolio diversification. Therefore, it is critical that managers adhere to the original intent of the Investment/Finance Committee. Should either the consultant or Investment/Finance Committee ascertain that significant changes in investment style have occurred, this may be grounds for termination.
5. Managers may be replaced at any time as part of an overall restructuring.