California College of the Arts

ENDOWMENT FUND

STATEMENT OF INVESTMENT POLICY

GUIDELINES AND OBJECTIVES

I. PURPOSE

This Endowment Fund Statement of Investment Policy Guidelines and Objectives ("Policy") has been developed to ensure that the endowment fund (the "Fund") assets of CALIFORNIA COLLEGE OF THE ARTS ("CCA") are invested in a manner consistent with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and the Nonprofit Corporation Law of California, and to assure grantors, donors, and potential donors that their funds will be managed prudently to support the long-term viability of CCA's programs. This Policy has also been developed to identify the responsibilities of CCA's Board of Trustees and of related parties.

II. DELEGATION OF RESPONSIBILITIES

A. <u>Responsibilities of the Board of Trustees</u>

All powers and activities of CCA under this Policy shall be exercised and managed by the Board of Trustees of this corporation. Accordingly, the Board of Trustees shall review and approve this Policy to put it in place initially. Notwithstanding the foregoing, any subsequent action to be taken by the Board of Trustees according to this Policy may be taken instead by the Executive Committee, pursuant to its valid exercise of Board authority. The Board of Trustees may delegate the investment and management of its funds to the Investment Committee (the "Committee"), officers, employees, and third-party agents. When investing and managing CCA's Fund assets, and when delegating the investment and management of the assets, the Trustees shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims to accomplish CCA's purposes. In the course of administering the Fund assets pursuant to this standard, the Trustees shall: (1) consider the charitable purposes of CCA; (2) avoid speculation, looking to the permanent disposition of the funds, considering the probable income as well as the probable safety of CCA's capital; and (3) consider:

- General economic conditions;
- The possible effect of inflation or deflation;
- The expected tax consequences, if any, of investment decisions or strategies;
- The role that each investment or course of action plays within the overall portfolio;
- The expected total return from income and appreciation of investments;
- CCA's other resources;
- The needs of CCA to make distributions and to preserve capital; and
- An asset's special relationship or special value, if any, to the charitable purposes of CCA.

Decisions about an individual investment shall be made not in isolation but rather in the context of CCA's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to CCA.

B. <u>Responsibilities of the Investment Committee</u>

The Committee may be comprised of trustees and non-trustees. The activities, affairs, and powers of the Committee shall be exercised under the ultimate direction of the Board of Trustees. Subject to the ultimate direction of the Board of Trustees, the Investment Committee shall have the authority to:

- Monitor and evaluate performance results to ensure that this Policy is being adhered to and that objectives are being met;

- Select, discharge, and manage Investment Advisors, as needed, to ensure the prudent investment of Fund assets and to advise the Committee. The Committee may diversify its Funds among Investment Advisor(s); and

- Advise the Board regarding periodic updates and improvements to this Policy to ensure sound and consistent investment policy guidelines and reasonable investment objectives.

C. <u>Responsibilities of the Investment Advisor</u>

The Investment Advisor is one or more individuals or firms employed to advise CCA on investment policy, determine precise asset allocations, and advise the Committee on its selection of investment managers. Each Investment Advisor shall be a registered Investment Advisor under the Investment Advisors Act of 1940.

If an Investment Advisor is consulting on just a portion of the Fund assets, specific guidelines and benchmarks for performance measurement will be separately determined and documented, such that the overall combination of the guidelines given to each advisor will achieve the targets and limitations of the overall portfolio as provided in Section III below. The Investment Advisor will monitor as appropriate for the purpose that trades be made in a manner consistent with best execution practices.

- <u>Recommending Asset Allocation, Benchmarks, and Re-Balancing Policy</u>

The Investment Advisor shall recommend an asset allocation, the relevant benchmark indices, and a re-balancing policy, which the Committee shall review and, if appropriate, recommend to the Board for inclusion in this Policy as <u>Exhibit A</u>. The Investment Advisor shall also recommend updates to such <u>Exhibit A</u> as it deems appropriate.

- <u>Recommending Investment Managers</u>

The Investment Advisor may recommend one or more Investment Managers, meaning one or more individuals or firms selected to manage the investment of all or part of the portfolio. This may include separate account managers and mutual fund managers.

- <u>Discretionary Authority</u>

The Investment Advisor must exercise prudent judgment within the guidelines of this Policy. The Investment Advisor will make recommendations to the Committee on matters outlined in this Policy.

- <u>Communication</u>

The Investment Advisor is responsible for communicating with the Committee regarding all significant matters pertaining to the investment of Fund assets. The Investment Advisor will keep the Committee apprised of substantive changes in investment strategy, asset mix, portfolio structure, market value of fund assets, and other matters affecting the investment of Fund assets.

The Committee shall be informed of any significant changes in the ownership, organizational structure, financial condition, or professional personnel staffing of the investment manager(s).

III. INVESTMENT POLICY

A. Overall Investment Policy

The overall investment policy of CCA shall be to establish and maintain an appropriate balance between the goals of preserving capital, liquidity, and growth, considering the projected cash flow needs of CCA. Total return (the aggregate return from capital appreciation, dividends, interest income, and other returns) shall be the standard of measurement, to be achieved through a well-diversified portfolio of equities, fixed income, cash equivalents, and other asset classes.

B. Overall Performance Objective

The overall performance objective is to outperform, after-fees the return of a hypothetical portfolio composed of indices representing the asset allocation set forth in Exhibit A.

C. Specific Asset Allocation

The Investment Advisor shall recommend the specific asset allocations to achieve the above overall investment policy and overall performance objective. The specific asset allocations shall be set forth in Exhibit A.

D. Objectives and Restrictions

Investments are subject to the objectives and restrictions provided for in Exhibit B. These restrictions may be waived by a contributor by means of an express written provision contained in a gift instrument, or by the Board of Trustees (but only on an asset-by-asset basis, at the request of the Committee).

IV. ENDOWMENT FUND SPENDING POLICY

The goal of the Fund is to balance the current needs of CCA with the obligation to preserve and grow the Fund for future generations. The management objective for the Fund is to preserve and enhance its real (inflation adjusted) purchasing power while providing a relatively predictable, stable, and constant stream of earnings in line with spending needs.

A. Annual Spending from the Fund

CCA may appropriate for expenditure so much of the Fund as the Board determines is prudent, consistent with the provisions of UPMIFA and the intent that the Fund be an endowment fund (the "Annual Amount").

B. Target Spending Goals

The percentage of the Fund made available for distribution each year shall be determined by the Committee and will normally fall in the range of three to five percent (3% - 5%). The amount available during each fiscal year shall be calculated by applying the spending rate to the moving average of the market value of the Fund as of the final day of the three trailing fiscal years (which is April 30 prior to FY 15 and June 30 FY 15 and beyond). However, it is recognized that this spending guideline may exceed the real returns that can be reasonably expected in the then current investment environment. The Committee will periodically review the Fund spending guidelines in light of actual investment returns and development of new endowment contributions and make recommendations to the Board of Trustees. The Committee does not want to erode the corpus of the Fund and recognizes that spending guideline may need to be adjusted according to the real rates of returns generated by prudent management of the Fund. Therefore, the Committee reserves the right to recommend a distribution that falls outside of the above specified range. The Committee will also consider all of the following factors, as required by UPMIFA:

- duration and preservation of the Fund
- purposes of CCA and the Fund
- general economic conditions
- possible effect of inflation or deflation
- the expected total return from income and appreciation of investments
- other resources of CCA
- the investment guidelines in this Policy.

The Committee's goal for the total Fund is to earn a net-of-fee rate of return of 5% plus inflation. Real total return is the sum of capital appreciation (or loss) and current income achieved in the form of dividends, interest, and other forms of income, adjusted for inflation as measured by some index such as the Consumer Price Index. The Committee recognizes that these goals may prove unrealistic in the event of temporary or prolonged extreme economic conditions of severe deflation or abnormal inflation.

V. REPORTING

A. By the Investment Committee

The Committee shall meet with each Investment Advisor firm at least one time per year to conduct a thorough review of the portfolio for the purposes of: (i) determining the possibility of achieving the investment objectives and appropriateness of rebalancing to respond to a changing economic environment; (ii) comparing the Investment Advisor's results to the appropriate indices and peer groups; and (iii) reviewing CCA's investment objectives and guidelines to determine their continued applicability. The Committee will communicate any changes in the tax status of the account(s) to the Investment Advisor immediately. The Committee will also make any unusual liquidity requests to the Investment Advisor as quickly as possible to minimize disruption to the portfolio.

The Committee shall report to the Board of Trustees annually on the investment performance of the portfolio; the Committee will also provide to the Board a quarterly dashboard that summarizes investment performance. The Committee will perform an annual review of this Policy and bring any recommended changes to the Board of Trustees for approval. Reports of the deliberations of the Committee and/or any other significant documents published by the Committee will be transmitted to the President of CCA to help accomplish this reporting.

B. By the Investment Advisor

The Investment Advisor must report regularly to the Committee, on the following matters at the stated intervals:

- Immediately for any significant internal change to the Investment Advisor organization, including changes in portfolio management personnel, ownership structure, or investment philosophy that may have a material effect on the investment process or objectives.

- Immediately for any change in the economy or investment climate, or any other external factor which may have a material effect on the investment process or objectives.

- At least quarterly, a statement including:

  - The portfolio composition for each major class of securities including cash equivalents;

  - A report of any material changes in policy objectives, staffing, or business conditions of the Investment Advisor firm.

The Investment Advisor will also ensure that performance reports for each manager are provided on a quarterly basis.

VI. PROCEDURE FOR REVISING THIS POLICY

The Board and Committee recognize that the capital markets are dynamic and that this Policy requires periodic re-examination. The Investment Advisor is encouraged to suggest modifications to this Policy, along with its rationale and specific recommendations, to the Committee. The Policy will be reviewed annually and updated as needed, as approved by the Board upon recommendation from the Committee.

EXHIBIT A
INVESTMENT POLICY IMPLEMENTATION

1. Asset Allocation

CCA's Fund assets shall be invested in accordance with the following asset allocation model:

Endowment Portfolio
(Target Investment Policy Mix)

Asset Class	Target	Minimum	Maximum
U.S. Equity	39%	29%	49%
International Equity	26%	16%	36%
Real Estate	5%	0%	10%
Total Equity	**70%**	**60%**	**80%**
U.S. Fixed Income	21%	16%	26%
International Fixed Income	9%	4%	14%
Total Fixed Income	**30%**	**20%**	**40%**

2. Investment Benchmarks

The Committee will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives. At a frequency to be decided by the Committee, it will formally assess the Portfolio and the performance of its underlying investments as follows:

A. The Portfolio's composite investment performance (net of fees) will be judged against the following standards:

1. The Portfolio's absolute long-term real return objective.

2. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio's investment guidelines.

a) U.S. Equity: CRSP US Total Market Index

b) Non-U.S. Equity: FTSE Global All Cap ex US

c) U.S. Fixed Income: Bloomberg Barclays Capital U.S. Aggregate Bond Index

d) Non-U.S. Fixed Income: Bloomberg Barclays Global Aggregate ex US

e) Cash: Citigroup 3-Month T-Bill Index

3. Re-Balancing Policy

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:

1. The investment manager will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio to realign the current weightings closer to the target weightings for the Portfolio.

2. The investment manager will review the Portfolio semiannually (June 30 and December 31) to determine the deviation from target weightings. During each semiannual review, the following parameters will be applied:

a) If any asset class (equity or fixed income) within the Portfolio is +/–5 percentage points from its target weighting, the Portfolio will be rebalanced.

3. The investment manager may provide a rebalancing recommendation at any time.

4. The investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

EX
HIBIT B
OBJECTIVES
AND
RESTRICTIONS

1. **Public Equities**

Objectives – The investment objective is to maximize net-of-management fee total return on the portfolio through investment in publicly-traded securities. Growth of capital is of prime importance. The net-of-fee return of the portfolio is expected to exceed the return of the appropriate indices over a three- to five-year period.

Cash Equivalent Investments – This portfolio should remain as fully invested as practical once the account becomes fully funded. Normally, cash balances will be held to less than 10% of the value of the portfolio but can be greater if such levels are identified by the manager as part of its formal investment process. Cash in the account will be swept into a custodial money market instrument.

Diversification – Unless otherwise approved by the Committee, when fully invested, each manager portfolio will be comprised of at least 20 common stocks. Any single investment should normally not exceed 5% of the market value of the portfolio at the time of purchase. If subsequent market action takes the current market value beyond the 5% limitation, the manager has an obligation to prudently reduce any holding that exceeds 10% of the portfolio's market value. Investment in more than 5% of the voting securities of any one issuer is prohibited. Investments in mutual funds are permitted, as are exchange traded funds.

Derivatives – The use of derivatives is not considered normal policy and requires the advance approval of the Committee.

Leverage – Explicit use of leverage in the portfolio is forbidden. Leverage is herein defined as a situation in which the portfolio as a whole is more than 100% invested in the securities permitted by this Policy. This restriction applies to long-only managers.

Prohibited Investments – CCA may from time to time provide managers with direction regarding securities it does not want held in any of the portfolios if it has been determined that there are companies following policies which are unacceptable to CCA. Managers are expected to divest the portfolios of securities in any such companies and refrain from buying those securities until otherwise notified.

Managers are not authorized to purchase securities on margin or execute short-sale transactions unless specifically authorized by the Committee.

2. Fixed Income

Objectives – To actively manage a fixed income portfolio in order to provide a competitive rate of return relative to the designated benchmark. Each portfolio's primary emphasis should be the preservation of capital. An important secondary focus should be on maximizing the generation of income. The level of risk, defined as the price sensitivity of the portfolio to changes in interest rates and credit exposure, should be reasonable relative to the benchmark. The account shall have the objective of maintaining high degree of liquidity.

Relative and absolute net-of-fees portfolio performance is important. The portfolio is expected to generate gross-of-fee returns in excess to that of the benchmark over a full market cycle. The average duration of the portfolio may be extended beyond the parameters of the benchmark as market conditions dictate but must be held within the parameters defined below.

Diversification and Credit Quality

- The portfolio shall maintain a modified duration for the portfolio of between 70% and 130% of the benchmark's modified duration.
- The maximum effective duration of any individual security held within the portfolio shall not exceed 30 years.
- The portfolio shall maintain a weighted average credit quality of A- or better.
- The portfolio shall limit investment in securities in any one issuer or project to no more than 5% of the portfolio at the time of purchase. This limitation shall not apply to U.S. Treasury and U.S. Government Agency obligations.
- The portfolio shall limit investment in non-U.S. Dollar denominated securities to 30% of the fixed income allocation at the time of purchase.

Leverage – Explicit use of leverage in the portfolio will not be undertaken without the prior written consent of the Committee.

3. Alternative Assets

Alternative assets include a wide range of investments such as non-marketable investments (venture capital, private equity, etc.), marketable alternative investments (absolute return strategies within hedge), and commodities and other investments (convertible bonds, preferred securities, distressed credit, etc.). The purpose of alternative assets is to enhance diversification and increase overall long-term performance for the Fund.

4. Cash

Cash is to be invested with primary emphasis on safety of principal. Permissible cash investments include the custodian's money market fund, short-term government agencies or high quality investment grade money market instruments.

5. Other

These are the considerations regarding environmental, social responsibility, and governance practices to be addressed within an appropriate fiduciary framework.

In keeping with CCA’s values statement which describes the school’s “ethical responsibility to shape a culture that is more environmentally responsible” and within an appropriate fiduciary framework, CCA’s investment goals are to:

1) Avoid direct investment in any companies within the managed accounts where we are able to exercise control; and

2) Minimize investments in any potentially objectionable companies by taking an agnostic, market-cap weighted approach within the managed portfolios such as mutual funds, hedge funds, and private equity. It is our objective to maintain our total combined allocation to such companies at no more than 5% of CCA's total portfolio.