HSU FOUNDATION
INVESTMENT POLICY
APPROVED AT JULY 17, 2020 BOARD MEETING
(REPLACES AND SUPERSEDES POLICY APPROVED JUNE 7, 2019)

POLICY STATEMENT

This Investment Policy is intended to provide guidelines for the prudent investment of the Foundation's permanent endowment and quasi-endowment funds and related asset portfolios and to outline the policies for maximizing the effectiveness and efficiency of the Humboldt State University Foundation (hereafter referred to as the Foundation) investment management program. The goal of this Investment Policy is to enhance the Foundation's capacity for carrying out its charitable mission which is, "to promote and assist the Humboldt State University campus of the California State University to receive gifts and property and to manage these resources and to make them available to the University to further the educational mission and objectives of Humboldt State University as determined by the duly appointed and acting president of the University."

INVESTMENT OBJECTIVE

The purpose of acquiring charitable funds is to support the University and its mission over the long term. Accordingly, the purpose of this policy is to establish a framework for the investment of Foundation assets, and to ensure that future growth of these assets is sufficient to provide a consistent level of distribution for charitable purposes and offset normal inflation to preserve the purchasing power of the endowment for future generations. This policy establishes appropriate risk and return objectives in light of the Foundation's risk tolerance and investment time horizon. Asset allocation guidelines and suitable investments shall be established by the Foundation consistent with the policy.

The objectives of the Investment Policy are as follows: **Absolute –** which shall be measured in real (i.e. net of inflation) rate-of-return terms and shall have the longest time horizon for measurement; **Relative –** which shall be measured as time-weighted rates of return versus capital market indices; and **Comparative –** which shall be measured as performance of the investment manager(s) as compared to a universe of similar investment funds.

The **Absolute Objective** is to seek an average total annual net return of at least 4.5%, plus the Foundation's service charge. With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and of like aims, the objective is to achieve the greatest return possible to optimize resources to achieve University goals. This objective shall be measured over an annualized, rolling five and ten year time periods.

The **Relative Objective** is to seek competitive investment performance versus appropriate or relative capital market measures, such as securities indices. The objective shall be measured primarily by comparing investment results; over a moving annualized three and five year time period to a weighted strategic benchmark created by weighting appropriate indexes (i.e.: 90 day Treasury, Merrill Lynch 1-3 Year Treasury, Bloomberg Barclays Aggregate, S&P 500, etc.) according to the portfolio's actual asset class weighting at the beginning of each month.

The **Comparative** performance objective is to achieve a total rate of return that is above the median performance of the universe of other similarly managed endowment/ foundation funds of similar size and with a similar mandate. Endowment assets have an indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. Quasi-endowment assets have a similarly long-term time horizon. As such, these funds can assume a time horizon that extends well beyond a normal market cycle.

The general policy shall be to diversify investments among both equity and fixed income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

I. SPENDING POLICY

The amount to be distributed for charitable purposes in each fiscal year will be targeted at 4.5 percent of the average total market value during the 12 quarters ending with the last quarter of the previous fiscal year. The Foundation may distribute any additional funds that were available for distribution but were not withdrawn in previous fiscal years.

II. RESPONSIBILITIES

The following parties associated with the Foundation shall discharge their respective responsibilities in accordance with all applicable fiduciary standards as follows: (1) in the sole interest of the Foundation's contributors and beneficiaries; (2) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in 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. <u>Board of Directors</u>: The members of the Board of Directors are the fiduciaries of the Foundation and are ultimately responsible for the investments of the Foundation.

B. <u>Finance & Investment Committee</u>: The members of the Finance & Investment Committee have been delegated authority by the Board of Directors to provide oversight and management of the administrative issues associated with the Foundation's assets. They have recommendatory authority to the Board of Directors with respect to the implementation of this Investment Policy and shall make detailed reports to the Board of Directors regarding the status of the Foundation's investments.

Specific responsibilities include the following:

1. Recommend investment goals and objectives for approval by the Board of Directors
2. Establish and, when deemed necessary, recommend modifications to the Investment Policy
3. Select and terminate professional investment managers as appropriate
4. Negotiate and monitor Foundation investment expenses
5. Monitor and evaluate investment performance on a quarterly and ongoing basis
6. Assure proper custody of the investments
7. Report to the Board of Directors, at least annually, regarding the Foundation's investment results, its composition and other information the Board of Directors may request
8. To assist in this process, the Finance & Investment Committee may retain an Investment Consultant.

C. <u>Investment Consultant</u>: When appropriate, an Investment Consultant will be charged with the responsibility of advising the Finance & Investment Committee on investment policy, spending policy, asset allocation, manager structure, investment manager selection, performance analysis and monitoring and evaluation.

D. <u>Investment Manager(s)</u>: When appropriate, investment manager(s) is (are) delegated the responsibility of investing and managing the Foundation'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 Foundation's assets, or, (5) such other person or organization authorized by applicable law or regulation to function as an investment manager.

III. GOVERNANCE, ETHICS AND CONFLICT OF INTEREST

Foundation assets will be managed in accordance with the provisions of the California Uniform Prudent Management of Institutional Funds Act included in in Appendix I.

All participants in the investment process shall act responsibly. The standard of prudence to be applied by the Finance & Investment Committee, staff, and external service providers shall be the "prudent investor" rule, which in part, states: "A trustee shall 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 trustee shall exercise reasonable care, skill, and caution. A trustee'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."

All investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. All investment personnel shall disclose to the Executive Director any material financial interests in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Foundation's investment portfolio. The Executive Director shall report in writing to the Chairperson of the Board any issues, which could reflect any conflict in the performance of the Foundation's investments.

IV. INVESTMENT MANAGEMENT – ASSET CLASS GUIDELINES

The Foundation may be invested in separately managed accounts, commingled funds, or mutual funds. In such cases, the manager(s) of these funds will have full discretion over the portfolio management decisions with the following guidelines and those established by respective prospectuses.

A. Equity Investments:

The overall investment objective of the equity portion is to provide top quartile long-term total returns relative to the broad equity market and to the returns of other funds with similar objectives and investment styles. The equity portion shall be invested under the following guidelines:

1. Allowed investments include publicly traded common stocks, preferred stocks, stock warrants and rights, convertible bonds, securities issued by non-U. S. companies traded on U. S. exchanges, 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 Foundation's equity portfolio based on cost at the time of acquisition or 7% at market value of the equity portfolio.

3. The Foundation 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 investment objective of the fixed income portion, including the Treasury Inflation Protected Securities (i.e. TIPS) allocation, is to provide (above average) top quartile long-term total return relative to the fixed income market and to 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. Allowed investments include corporate and government bonds, asset-backed securities and any other fixed income investments as allowed by respective prospectuses.

2. Average credit quality shall be A or better.

3. 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.

4. There shall be a maximum limitation on below-investment-grade bonds of 10% of the bond portfolio.

5. There shall be a maximum limitation on non-U. S. bonds of 30% of the bond portfolio.

C. <u>Short Term Investments:</u>
Cash shall be continuously invested until needed in the following: U.S. Treasury Bills, quality (A1/P1 or equivalent at the time of purchase) commercial paper, savings accounts, and other money market investments as approved by the Finance & Investment Committee.

D. <u>Real Estate:</u>
Commingled Real Estate Funds - The Foundation may invest in a commingled real estate fund that offers broad geographical diversification utilizing a wide range of property types. Investment in a commingled fund offers much greater liquidity by allowing the Foundation to purchase shares of the fund, as opposed to a direct investment in real estate, which requires ownership in actual land and buildings. Although leverage is allowed, the fund's policy objective shall not exceed a total of 30% across the entire portfolio (or 40% on a market value basis).

Individual Properties - Real estate investments in individual properties will be evaluated on a case by case basis by the Finance & Investment Committee. If an individual property investment is deemed to be appropriate, the Finance & Investment Committee will seek approval to invest from the Executive Committee.

For both types of real estate investments described above, it is the policy of the Foundation, where possible, to seek investment vehicles which do not generate Unrelated Business Taxable Income (UBTI). UBTI is income earned by a tax-exempt entity that does not result from tax-exempt activities. As the Foundation may owe taxes on this income, each investment should be carefully reviewed.

E. Alternative Investments:

Alternative investments are non-traditional investments that have low correlation with most traditional asset classes. Alternative investments are usually transacted through a partnership structure and are often characterized by limited liquidity, infrequent valuations, and the need for greater administrative workload and oversight. The Finance & Investment Committee recognizes that additional investment classes may reduce the Foundation's investment performance volatility and/or enhance overall performance. It is the intent of the Finance & Investment Committee to place a portion of assets specified in Appendix A in investment categories such as:

- Absolute Return Strategies
- Private Equity

Definitions, as well as manager performance objectives, for each alternative asset class specified above can be found in Appendix B of this Policy.

The investment criteria and guidelines for alternative asset class investment managers and all other investment managers utilizing a mutual fund or commingled fund will be subject to the prospectus, offering circular, or other offering documents prepared by the investment manager. It is the policy of the Foundation, where possible, to seek investment vehicles which do not generate Unrelated Business Taxable Income (UBTI).

If the foundation receives property, which is not a qualified investment under these guidelines, the Finance & Investment Committee is directed to dispose of the property and reinvest the proceeds in qualified investment within a reasonable period. Exceptions require the approval of the Executive Committee.

V. INVESTMENT MANAGEMENT – GENERAL GUIDELINES

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 securities held by the Foundation. The investment manager(s) shall furnish the Finance & Investment Committee with a written proxy voting policy statement, and shall keep records with respect to its voting decisions. The prospectus or other governing documents for a mutual fund or commingled fund will take precedence over these proxy guidelines.

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. The Finance & Investment 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. A comprehensive annual report from the Finance & Investment Committee will be presented to the full Board of Directors.

2. The Finance & Investment Committee, with the assistance of the Investment Consultant, shall periodically review the qualitative developments of each investment manager. This evaluation should include: changes in ownership, personnel turnover, adherence to investment style and philosophy, and any other qualities that the Finance & Investment Committee deems appropriate. This review should also include an assessment as to whether each investment manager has operated within the scope of this Investment Policy.

3. The investment manager(s) must disclose all major changes in organization or investment philosophy to the Finance & Investment Committee members or Investment Consultant within 30 days. Further, all registered investment advisors must present updated ADV-2 forms on an annual basis to the Finance & Investment Committee and/or Investment Consultant.

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 Foundation's investments during the quarter, together with a statement of beginning balance, fees, capital appreciation, income and ending balance for each account.

5. Professional investment management is encouraged to report routinely to the Executive Director and to the Finance & Investment Committee. Additional meetings with the Finance & Investment Committee or the Board may be requested.

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:

1. Any organizational change that may materially affect the management process will be noted by the investment management and discussed with the Finance Committee. If the Finance & Investment Committee deems appropriate, the investment manager may be called upon to discuss changes.

2. Violation of terms of contract without prior approval for the Finance & Investment Committee constitutes grounds for termination.

3. As part of its overall asset allocation strategy, the Finance & Investment 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 Finance & Investment Committee. Should either the Investment Consultant of staff ascertain that significant changes in investment style have occurred, this may be grounds for termination.

4. Managers may be replaced at any time.

E. Policy Changes:
The Investment Consultant shall advise the Executive Director and/or the Finance & Investment Committee of any restrictions within this Investment 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 this Investment Policy discovered by the Investment Consultant in the preparation of its regular performance review shall be reported immediately to the Finance & Investment Committee and discussed at their next regularly scheduled meeting.

F. Investment Policy Review and Revisions:
The Board of Directors reserves the right to amend this Investment 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 Foundation's assets.

This Investment Policy shall also be reviewed annually to ensure compliance and relevance to the current law, financial and economic trends, and to meet the cash flow requirements of the Foundation.

VI. ALTERNATIVE INVESTMENTS – VALUATION AND CONTROLS

The following policy shall pertain to all Alternative Investments. Alternative Investments shall be defined as any investment in private equity, non-listed and market priced absolute return strategies, non-listed and market priced vehicles investing in real estate, non-listed and market priced vehicles investing in commodities, non-listed and market priced offshore vehicles, and non-listed and market priced commingled funds.

The named Investment Manager for each such Alternative Investment shall provide, in writing, the policies and procedures used in periodic portfolio valuation. These policies and procedures along with portfolio composition are to be reviewed with the client at least annually. At a minimum, the manager will address the following:

- Nature of underlying investments, including factors such as complexity, liquidity, volatility, and frequency of trading
- Methodology and assumptions used in valuation
- Checks and balances in place to ensure a fair valuation process

Furthermore, the Investment Manager will also notify the HSUF and/or Investment Consultant immediately regarding any changes made to the valuation methodology or the assumptions used in the valuation process. The Investment Manager is also responsible for providing audited financial statements at least annually, and non-audited statements on at least a quarterly basis.

VII. SOCIALLY RESPONSIBLE INVESTING

The Board of Trustees of the California State University adopted a resolution urging auxiliary boards, which make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The Foundation Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds and has adopted the Humboldt Socially and Environmentally Responsible Investment Offset Policy ("SEROP") which says that the Humboldt State University Foundation will:

1. Define Socially or Environmentally Concerning Sectors ("Concerning Sectors") in a broad, bold way so as to include:

    a. Energy - extraction, distribution, refining and marketing (e.g., oil, natural gas, coal and related/supporting industries);
    b. Utilities - electricity generation (e.g., utilities utilizing carbon-based fuels);
    c. Aerospace/defense, alcohol, tobacco, gaming and casino industries.

    Revisit definition and revise as appropriate over time.

2. Continue to abstain from any direct investment in Concerning Sectors.

3. Monitor and report on the value of indirect investments in Concerning Sectors.

4. Make reasonable attempts to reduce the size of indirect investments in Concerning Sectors provided any divestments are consistent with the Foundation's fiduciary requirements.

5. Define Socially or Environmentally Responsible ("SER") organizations, projects or assets initially as ones which:

    a. Are environmentally friendly (e.g., reduce the levels of atmospheric greenhouse gases) or;
    b. Improve the health and well-being of our community members.

    Revisit definition and revise as appropriate over time.

6. Actively seek offsetting investment opportunities in SER organizations, projects or assets.

7. Invest directly in SER organizations, projects or assets provided that:

    a. Investments meet the Foundation’s fiduciary requirements and policies, and
    b. Investments support the stated HSU mission, vision and values.

8. Monitor and report on the value of direct investments in SER assets and active investments in SER organizations or projects.

9. Monitor and report on the value of obvious indirect investments in SER organizations, projects or assets.

10. Create a socially and environmentally responsible fund and actively seek donations of funds and assets that could be used to support Humboldt’s SEROP Pledge.

APPENDIX A

Allocation of Assets

The target asset allocation for the Foundation is determined by the Finance & Investment Committee to facilitate the achievement of the Foundation's long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance, the long-term Foundation assets shall be divided into the following asset classes:

Asset Class	Minimum Percent	**Target Percent***	Maximum Percent
Large Cap U.S. Equities	23%	**33%**	43%
Small Cap U.S. Equities	1%	**6%**	11%
Large Cap Non-U.S. Equities	16%	**26%**	36%
Fixed Income	6%	**16%**	26%
Cash & Equivalents	0%	**0%**	3%
Real Estate	7%	**12%**	17%
TIPS	2%	**7%**	12%
Absolute Return*	0%	**0%**	0%
Private Equity*	0%	**0%**	0%

*Absolute Return and Private Equity may be evaluated by the Committee in the future to determine whether these asset classes are appropriate for a target allocation.

Liquidity:

The Finance & Investment Committee and Investment Consultant will monitor the Foundation's cash flow on a regular basis, and sufficient liquidity shall be maintained to fulfill the spending objectives and operational costs of the Foundation. When withdrawals become necessary, the Finance & Investment Committee or Investment Consultant will notify the investment manager(s) and/or custodian as far in advance as possible to allow them sufficient time to acquire the necessary liquid reserves.

Rebalancing

The Finance & Investment Committee, on an ongoing basis and in accordance with market fluctuations, will rebalance the investment portfolio so it remains within the range of targeted asset allocations, and the planned distribution among investment managers.

A rebalancing procedure as deemed appropriate by the Finance & Investment Committee will be implemented, at least annually, or when significant cash flows occur to maintain the allocation of assets within the appropriate ranges.

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

APPENDIX B

Performance Monitoring 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 manager(s) over one full market cycle, or five years, whichever is less.

Total Portfolio

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

1. Achieve an annual total rate of return of at least 4.5% plus the Foundation's service fee plus the consumer price index (CPI) over a market cycle, or five years, whichever is less;

2. Exceed the return of an Actual Allocation Index created by weighting appropriate indexes (i.e.: Bloomberg Barclays Aggregate, S&P 500, etc.) according to the portfolio's actual manager weighting at the beginning of each month over a market cycle, or five years, whichever is less;

3. Rank above median in a universe of other similarly managed endowment/foundation funds of similar size and with a similar mandate over a market cycle, or five years, whichever is less.

The performance expectations for the individual asset classes set forth below apply only to actively managed portfolios. All indexed investments are expected to provide a return that is comparable to the tracked benchmark on a gross of fees basis.

U.S. Equities - Large Capitalization

Large capitalization U.S. equity represents investments made in companies within the United States, with market capitalizations typically greater than $20 billion. The capitalization of a company is calculated by multiplying the number of shares outstanding by the price per share. Large capitalization U.S. equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the appropriate S&P 500 or Russell 1000 style benchmark net of fees over a market cycle, or five years, whichever is less.

2. Rank above median in a nationally recognized universe of equity managers possessing a similar style.

U.S. Equities – Small Capitalization

Small capitalization equity represents investments made in companies with market capitalizations typically less than $4 billion. The capitalization of a company is calculated by multiplying the number of shares outstanding by the price per share. Small capitalization equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the appropriate Russell 2000 style benchmark net of fees over a market cycle, or five years, whichever is less.

2. Rank above median in a nationally recognized universe of equity managers possessing a similar style.

Non-U.S. Equities - Large Capitalization

Non-U.S. large cap equity represents investments made in companies headquartered and traded on stock exchanges outside of the United States with capitalizations typically greater than $20 billion. Non-U.S. equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the appropriate MSCI All Country World exUS or MSCI EAFE style benchmark net of fees over a market cycle or five years, whichever is less.

2. Rank above median in a nationally recognized universe of international equity managers possessing a similar style.

Fixed Income

Fixed income represents investments in the bonds issued by corporations and government and related organizations, typically within the United States. Fixed income accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the Return of the Bloomberg Barclays Aggregate Index net of fees over a market cycle, or five years, whichever is less.

2. Rank above median in a nationally recognized universe of fixed income managers possessing a similar style.

Real Estate

Real estate represents investments in many individual properties, accessed through commingled funds. 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 managers will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return on the NCREIF Fund Index – Open-End Diversified Core Equity (NCREIF ODCE Index) net of fees over a market cycle, or five years, whichever is less.

Treasury Inflation Protected Securities ("TIPS")

TIPS represents debt issued by the U.S. Treasury with resulting performance linked to the rate of change of the Consumer Price Index. TIPS accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the Return of the Bloomberg Barclays TIPS Index net of fees over a market cycle, or five years, whichever is less.

2. Rank above median in a nationally recognized universe of TIPS managers possessing a similar style.

Absolute Return

Absolute return represents 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 managers will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the HFN Fund of Funds – Multi-Strategy Index net of fees over a market cycle, or five years, whichever is less.

Private Equity

Private equity represents investments in Venture Capital, Buyouts, Mezzanine, and Distressed Debt. 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 employing different strategies, thus creating a diversified investment vehicle for its investors. Private equity managers will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the increase in the S&P 500 Index by at least five percent (5%) annually net of fees over a market cycle, or five years, whichever is less;

2. Exceed the Venture Economics Private Equity median return for the appropriate vintage year.

APPENDIX C

California Uniform Prudent Management of Institutional Funds Act
(Probate Code Section 18501-18510)

18501. This part may be cited as the Uniform Prudent Management of Institutional Funds Act.

18502. As used in this part, the following terms shall have the following meanings:

(a) "Charitable purpose" means the relief of poverty, the advancement of education or religion, the promotion of health, the promotion of a governmental purpose, or any other purpose the achievement of which is beneficial to the community.

(b) "Endowment fund" means an institutional fund or part thereof that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. The term does not include assets that an institution designates as an endowment fund for its own use.

(c) "Gift instrument" means a record or records, including an institutional solicitation, under which property is granted to, transferred to, or held by an institution as an institutional fund.

(d) "Institution" means any of the following:

(1) A person, other than an individual, organized and operated exclusively for charitable purposes.
(2) A government or governmental subdivision, agency, or instrumentality, to the extent that it holds funds exclusively for a charitable purpose.
(3) A trust that had both charitable and non-charitable interests, after all non-charitable interests have terminated.

(e) "Institutional fund" means a fund held by an institution exclusively for charitable purposes. The term does not include any of the following:

(1) Program-related assets.
(2) A fund held for an institution by a trustee that is not an institution.
(3) A fund in which a beneficiary that is not an institution has an interest, other than an interest that could arise upon violation or failure of the purposes of the fund.

(f) "Person" means an individual, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, public corporation, government or governmental
subdivision, agency, or instrumentality, or any other legal or commercial entity.

(g) "Program-related asset" means an asset held by an institution primarily to accomplish a charitable purpose of the institution and not primarily for investment.

(h) "Record" means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

18503. (a) Subject to the intent of a donor expressed in a gift instrument, an institution, in managing and investing an institutional fund, shall consider the charitable purposes of the institution and the purposes of the institutional fund.

(b) In addition to complying with the duty of loyalty imposed by law other than this part, each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

(c) In managing and investing an institutional fund, an institution is subject to both of the following:

(1) It may incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution.
(2) It shall make a reasonable effort to verify facts relevant to the management and investment of the fund.

(d) An institution may pool two or more institutional funds for purposes of management and investment.
(e) Except as otherwise provided by a gift instrument, the following rules apply:

(1) In managing and investing an institutional fund, all of the following factors, if relevant, must be considered:

(A) General economic conditions.
(B) The possible effect of inflation or deflation.
(C) The expected tax consequences, if any, of investment decisions or strategies.
(D) The role that each investment or course of action plays within the overall investment portfolio of the fund.
(E) The expected total return from income and the appreciation of investments.
(F) Other resources of the institution.
(G) The needs of the institution and the fund to make distributions and to preserve capital.
(H) An asset's special relationship or special value, if any, to the charitable purposes of the institution.

(2) Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the institutional fund's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.
(3) Except as otherwise provided by law other than this part, an institution may invest in any kind of property or type of investment consistent with this section.

(4) An institution shall diversify the investments of an institutional fund unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.
(5) Within a reasonable time after receiving property, an institution shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the institutional fund into compliance with the purposes, terms, and distribution requirements of the institution as necessary to meet other circumstances of the institution and the requirements of this part.
(6) A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds.

(f) Nothing in this section alters the duties and liabilities of a director of a nonprofit public benefit corporation under Section 5240 of the Corporations Code.

18504. (a) Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, all of the following factors:

(1) The duration and preservation of the endowment fund.
(2) The purposes of the institution and the endowment fund.
(3) General economic conditions.
(4) The possible effect of inflation or deflation.
(5) The expected total return from income and the appreciation of investments.
(6) Other resources of the institution.
(7) The investment policy of the institution.

(b) To limit the authority to appropriate for expenditure or accumulate under subdivision (a), a gift instrument must specifically state the limitation.

(c) Terms in a gift instrument designating a gift as an endowment, or a direction or authorization in the gift instrument to use only "income," "interest," "dividends," or "rents, issues, or profits," or "to preserve the principal intact," or words of similar import have both of the following effects:

(1) To create an endowment fund of permanent duration unless other language in the gift instrument limits the duration or purpose of the fund.
(2) To not otherwise limit the authority to appropriate for expenditure or accumulate under subdivision (a).

(d) The appropriation for expenditure in any year of an amount greater than 7 percent of the fair market value of an endowment fund, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure is made, creates a rebuttable presumption of imprudence. For an endowment fund in existence for fewer than three years, the fair market value of the endowment fund shall be calculated for the period the endowment fund has been in existence. This subdivision does not do any of the following:

(1) Apply to an appropriation for expenditure permitted under law other than this part or by the gift instrument.
(2) Apply to a private or public postsecondary educational institution, or to a campus foundation established by and operated under the auspices of such an educational institution.
(3) Create a presumption of prudence for an appropriation for expenditure of an amount less than or equal to 7 percent of the fair market value of the endowment fund.

18505. (a) Subject to any specific limitation set forth in a gift instrument or in law other than this part, an institution may delegate to an external agent the management and investment of an institutional fund to the extent that an institution could prudently delegate under the circumstances. An institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, in all of the following:

(1) Selecting an agent.
(2) Establishing the scope and terms of the delegation, consistent with the purposes of the institution and the institutional fund.
(3) Periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the scope and terms of the delegation.

(b) In performing a delegated function, an agent owes a duty to the institution to exercise reasonable care to comply with the scope and terms of the delegation.

(c) An institution that complies with subdivision (a) is not liable for the decisions or actions of an agent to which the function was delegated except to the extent a trustee would be liable for those actions or decisions under Sections 16052 and 16401.

(d) By accepting delegation of a management or investment function from an institution that is subject to the laws of this state, an agent submits to the jurisdiction of the courts of this state in all proceedings arising from or related to the delegation or the performance of the delegated function.

(e) An institution may delegate management and investment functions to its committees, officers, or employees as authorized by law of this state other than this part.

18506. (a) If the donor consents in a record, an institution may release or modify, in whole or in part, a restriction contained in a gift instrument on the management, investment, or purpose of an institutional fund. A release or modification may not allow a fund to be used for a purpose other than a charitable purpose of the institution.

(b) The court, upon application of an institution, may modify a restriction contained in a gift instrument regarding the management or investment of an institutional fund if the restriction has become impracticable or wasteful, if it impairs the management or investment of the fund, or if, because of circumstances not anticipated by the donor, a modification of a restriction will further the purposes of the fund. The institution shall notify the Attorney General of the application, and the Attorney General must be given an opportunity to be heard. To the extent practicable, any modification must be made in accordance with the donor's probable intention.

(c) If a particular charitable purpose or a restriction contained in a gift instrument on the use of an institutional fund becomes unlawful, impracticable, impossible to achieve, or wasteful, the court, upon application of an institution, may modify the purpose of the fund or the restriction on the use of the fund in a manner consistent with the charitable purposes expressed in the gift instrument. The institution shall notify the Attorney General of the application, and the Attorney General must be given an opportunity to be heard.

(d) If an institution determines that a restriction contained in a gift instrument on the management, investment, or purpose of an institutional fund is unlawful, impracticable, impossible to achieve, or wasteful, the institution, 60 days after notification to the Attorney General and to the donor at the donor's last known address in the records of the institution, may release or modify the restriction, in whole or part, if all of the following apply:

(1) The institutional fund subject to the restriction has a total value of less than one hundred thousand dollars ($100,000).
(2) More than 20 years have elapsed since the fund was established.
(3) The institution uses the property in a manner consistent with the charitable purposes expressed in the gift instrument. An institution that releases or modifies a restriction under this subdivision may, if appropriate circumstances arise thereafter, use the property in accordance with the restriction notwithstanding its release or modification, and that use is deemed to satisfy the consistency requirement of this paragraph.

18507. Compliance with this part is determined in light of the facts and circumstances existing at the time a decision is made or action is taken, and not by hindsight.

18508. This part applies to institutional funds existing on or established after January 1, 2009. As applied to institutional funds existing on January 1, 2009, this part governs only decisions made or actions taken on or after that date.

18509. This part modifies, limits, and supersedes the Electronic Signatures in Global and National Commerce Act (15 U.S.C. Sec. 7001 et seq.), but does not modify, limit, or supersede Section 101 of that act (15 U.S.C. Sec. 7001(a)), or authorize electronic delivery of any of the notices described in Section 103 of that act (15 U.S.C. Sec. 7003(b)).

18510. In applying and construing this uniform act, consideration must be given to the need to promote uniformity of the law with respect to its subject matter among states that enact it.