

# Investment Policy Statement

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**Responsible University Officer:**  
Vice President for Business and Finance

**Policy Owner:**  
Associate Vice President for Finance and  
Treasury

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Stacy Lewis  
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## POLICY STATEMENT

This investment policy statement (the “Policy”) has been established by the Board of Trustees (the “Board”) of the University of San Francisco (“the University,”) on the recommendation of its Investment Committee (the “Committee”) to govern the financial management of the University’s Pooled Endowment Fund (the “Fund”). The purpose of the Policy is to guide the Committee, the Vice President for Business and Finance (the “Vice President”) and the Vice President’s Office of Finance and Treasury Staff (the “Staff”), the Investment Managers (the “Managers”), and the Investment Consultant (the “Consultant”) in effectively supervising, monitoring, and managing the investments of the Fund.

This Policy will address the following:

- Purpose and goals of the Fund
  - Specific investment objectives of the Fund
  - Asset allocation and rebalancing policies
  - Policies and guidelines for the management of investments
  - Manager evaluation
  - Duties of responsible parties
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## REASON FOR POLICY

This Policy is designed to set forth reasonable parameters to ensure prudence and care by all persons involved in the execution of the investment program.

Incorporated herein are the Committee's policies, objectives, long-term asset allocation plan, and implementation program for fulfilling its fiduciary obligation to manage the Fund's assets with care, skill, prudence, and diligence.

The investment and spending policies detailed below are designed to achieve prudent management of the University's endowment assets in order to serve the long-term best interests of the various programs that rely on endowment income for operational support. The Fund represents a collection of individual endowment funds from benefactors that, in aggregate, form the Endowment pool from which annual distributions are intended to support the purposes of each individual endowment for generations to come. These investment and spending policies reflect the unique needs and preferences of the University, while providing investment strategies designed to preserve, in perpetuity, the purchasing power of the funds.

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## WHO SHOULD READ THIS POLICY

The Board, the Committee, the Vice President, the Staff, the Managers, and the Consultant, as defined in the **Policy Statement** above.

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## POLICY TEXT

### *A. Spending Policy*

The policy governing distributions from the Endowment Fund (the "Spending Policy") is designed to ensure that the Endowment maintains a consistent level of support to University operations annually, while preserving the Fund's inflation-adjusted value over time. In determining the Spending Policy, the Committee will consider the concept of intergenerational equity, with the goal of balancing current operating needs with the needs of future generations of beneficiaries.

For planning purposes, the target Spending Policy is 4.50% of the market value of the Fund, calculated as the three-year moving average of the market value of the Fund (from the preceding three-year period as of December 31st). The calculated spending for any individual endowment fund with a market value that is less than the historical gift amount ("underwater endowment") will not be distributed and will be reinvested in the Fund. Funds will be distributed throughout the applicable fiscal year at the discretion of the Vice President or Staff.

The results of the Spending Policy calculation will be reviewed annually by the Investment and Finance Committees and recommended for approval by the Board. The Board may consider raising or lowering the target spending percentage rate to be distributed in any given year in response to changing economic circumstances provided changes to the Spending Policy do not conflict with

Uniform Prudent Management of Institutional Funds Act (UPMIFA) guidelines or the objectives of the individual endowment funds.

## ***B. Investment Policy***

The following investment principles, consistent with the purpose of the Endowment, are adopted:

### **1. Total Return**

The Fund's assets will be managed on a total return basis, taking into consideration the need to fund the annual distribution to University operations. While the Committee recognizes the importance of the preservation of capital, it will also adhere to the principle that varying degrees of investment risk are generally rewarded with concomitant returns over the long-term. See Risk Tolerance considerations in Section 4.

### **2. Diversification**

The Fund's assets will be diversified among asset classes, as well as in various investment strategies within each asset class, including diversification among sectors and industries, quality, and market capitalization, on the premise that portfolio diversification and equity style diversification provide protection against a single security or class of securities having a disproportionate impact on aggregate performance. See also Risk Tolerance section 4 below.

### **3. Prudent Person Rule**

The Fund's assets will be managed to ensure that the investment program complies at all times with applicable local, state, and federal statutes and regulations. Specifically, the management of the Fund will be governed by the "Prudent Person Rule". The "Prudent Person Rule" is a flexible legal investment standard that allows a fund fiduciary to evaluate the merits of specific investments based on prevailing circumstances and the intended role of the investment within the context of the aggregate portfolio. In light of the Fund's long-term time horizon, the Fund may invest in individual assets which may have high volatility as long as the aggregate portfolio is in line with that expected of a prudently managed endowment. Principles to be considered in monitoring risk are summarized in section 4 below.

### **4. Risk Tolerance**

The Fund has a long-term time horizon, requiring the acceptance of a reasonable level of risk, as measured by volatility and variability of returns, in order to meet objectives.

The Committee will consider the following principles in making investment decisions:

- a. The Committee's primary fiduciary obligation is to maintain the inflation-adjusted principal value of the Endowment and meet current and future spending requirements. As such, the Committee will consider liquidity needs when making commitments to invest in private capital and/or other investments which lock up funds for long periods of time.

- b. The Committee is willing to accept the possibility of volatility and short-term declines in order to achieve potentially higher long-term investment returns.
- c. Fund performance shall be monitored and reviewed over both short-term and long-term time horizons.
- d. Assets are to be diversified to protect against significant losses and to reduce the probability of excessive performance volatility. Diversification is to be achieved by: i) allocating monies to various asset classes and investment styles within asset classes, and ii) retaining investment management firms with complementary investment philosophies, styles, and approaches.
- e. Asset allocation will be structured after consultation with the Consultant, University financial management, and other outside professionals, with the goal of managing downside volatility while optimizing return at an acceptable risk level for each pool of assets.

## **5. Social Responsibility Considerations**

The University embodies the Jesuit, Catholic traditions of social justice and commitment to sustainability, aspiring to contribute to the common good and a more just, humane, and sustainable world. The Fund will be invested responsibly in support of this important Mission. Guided by this mission and consistent with the “Prudent Person Rule,” the University aspires to invest its resources in a manner that is expected to generate rates of return consistent with this Policy’s long-term rate of return objective. The Fund shall not be used as a tool to promote a political agenda. Ethical, moral and social considerations will be incorporated as part of the investment process to achieve the Committee’s primary goal of maximizing long-term investment returns to provide funding for current needs, while preserving the value of the endowment for future generations of students.

The Fund is managed by carefully selected external Managers who specialize in various investment strategies. These Managers are chosen for their skill, judgment, and alignment of interest with the University. Because they understand the importance of investing in companies which behave in the best interests of their stakeholders, ethical and social considerations are embedded in the processes these partners follow in selecting specific securities. This Policy is provided to Managers to guide them in their evaluation of specific investment opportunities. As the Committee selects its investment partners carefully, the Committee trusts their judgment in determining whether a specific investment aligns with the University’s mission and values. The Committee will monitor the reputation of its Managers and evaluate the performance of its investment portfolio on a regular basis.

### ***C. Investment Return Objectives***

The net long-term return objective for the Fund is to achieve a total rate of return which exceeds the average rate of inflation (Consumer Price Index) by 5% per year, net of investment management fees. Endowment Fund investment performance shall be measured and evaluated over both short-term and long-term time horizons: one, five, ten, and 20 years. (Time frames for evaluating the performance of investment managers should approximate a market cycle with consideration to the asset classes that each investment is in.)

Rates of return will be evaluated, net of investment management fees, against appropriate and relevant benchmarks, selected to measure performance of the Fund's strategic asset classes as defined in the asset allocation policy in Section D.

#### ***D. Asset Allocation Guidelines***

##### **1. Strategic Targets**

The long-term Strategic Asset Allocation Target (the "SAAT") for this Fund is designed to facilitate the achievement of the Fund's long-term investment objectives within the established risk parameters. Should an asset category exceed its maximum or fall below its minimum allocation as reported during a regular meeting, the Committee shall discuss whether to remain passively over or under weight or to rebalance the portfolio. The Committee will review the SAAT at least on an annual basis and whenever the investment horizon for any portion of the Fund changes.

The SAAT is set forth below:

Asset Category	SAAT (%)	Min Range (%)	Max Range (%)	Benchmark
US Equities	37.5	22.5	50	Russell 3000
Non-US Equities	20	10	30	MSCI ACWI ex USA
Private Capital	20	15	30	Russell 3000 x 1.33
Diversifying Assets	10	5	15	CPI +5%
Real Assets	5	2.5	7.5	FTSE NAREIT All REITs (FNAR)
Fixed Income	4.5	3	15	Bloomberg US Aggregate Bond Index
Cash	3	2	15	91 Day T-Bills
Total Portfolio	100			

##### **2. Role of Asset Classes**

Allocations among asset classes are determined based upon the perceived role that each asset class plays within the overall portfolio to achieve the desired annual investment return. The Committee desires to diversify the portfolio by allocating funds among asset classes or strategies that are expected to perform differently in various economic or market climates. The asset classes in the SAAT are summarized in the **Definitions** section below.

## DEFINITIONS

Term	Definition
<b>US Equities</b>	The US domestic equity portion of the portfolio will provide exposure to corporate activity in the United States through publicly-traded companies. The endowment can invest in both active and passive (index-oriented) fund strategies. The investments in this asset class can include different investment styles as well as the full range of market capitalization.
<b>Non-US Equities</b>	The Non-US equity portion of the portfolio can include both active and passive (index-oriented) fund strategies that provide access to major equity markets outside the US equity markets. This segment will provide exposure to developed and developing non-US markets, whose growth and returns may be different than those of the US. Active international equity fund managers must perform rigorous, fundamental analysis to identify attractive public holdings to hold in the fund.
<b>Private Capital</b>	<p>Private Capital Investments include Private Equity Buyout and Venture Capital. These investments are illiquid and typically require a commitment level that will be drawn down over a period of years to be invested in companies or projects that will provide distributions when liquidated. Private Capital investments have both the highest risk and highest return potential of any asset class in the endowment portfolio.</p> <p><b>Private Equity Buyout</b> - These funds seek to gain a controlling majority ownership of a company with the intent to improve operations and efficiency to increase its value. These funds usually apply leverage to accommodate the purchase and multiply the impact of their capital. Liquidity is provided back to the fund upon sale of the company through acquisition or initial public offering.</p> <p><b>Venture Capital</b> - These funds provide capital to startup companies in various phases of their growth before they are sold through an acquisition or go public through an initial public offering. The phases of venture capital can include seed, Series A and beyond, bridge financing, up through growth stage just prior to an acquisition or public offering. Venture Capital is the highest risk and highest potential return form of Private Capital.</p>

<b>Diversifying Assets</b>	<p>Diversifying assets include both liquid and illiquid funds that offer the portfolio access to strategies that have low relative correlation to the domestic equity and fixed income markets. They represent a variety of investment styles using marketable securities and derivatives that seek to generate positive returns over a business cycle regardless of the direction of the capital markets.</p> <p>For the purposes of the SAAT, this category includes Private Credit. These funds make non-bank direct loans to companies or projects. The loans are made at interest rates that will provide a desirable rate of return at lower risk than other forms of private capital by being higher in the capital structure.</p>
<b>Real Assets</b>	<p>These funds acquire real estate property in its various forms including, but not limited to, multi-family residential, office, retail, industrial, and storage with the intent to improve the asset or its operations and increase its income generation and value. Liquidity is provided back to the fund as income distributions or when the asset is sold. Real Assets may serve to provide a measure of inflation protection to the Endowment. The Real Assets portfolio may be a source of heightened volatility from time to time, but such volatility will not directly match that of the Equities portfolio.</p>
<b>Fixed Income</b>	<p>The primary role of the fixed income portfolio is to provide a source of stability that acts as a buffer relative to more volatile but higher expected return portfolio segments, i.e., equities. In addition, the Fund's fixed income portfolio is expected to contribute substantially to the income needs of the Endowment. Fixed income generally provides a diversified portfolio with deflation protection during periods of financial duress. Bonds may dampen the overall volatility of total Fund performance, which is important to help mitigate losses in periods of declining equity markets. It is intended that the overall fixed income portfolio will be of high quality, at least investment grade, rated securities.</p>
<b>Cash</b>	<p>Cash equivalents are defined as short-term and highly liquid investments, with original maturities of three months or less, readily convertible into cash with a minimal risk of price change due to interest rate movements. Maintaining an appropriate cash level in the portfolio is critical to providing sufficient liquidity for distributions, projected capital calls, reallocations, etc.</p> <p>The University is authorized to invest in the following securities with original maturities of three months or less:</p> <ul style="list-style-type: none"> <li>• U.S. Treasury Securities</li> <li>• Securities of agencies of the federal government</li> <li>• Bank certificates of deposit</li> <li>• Money market mutual funds</li> <li>• Commercial paper</li> </ul>

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## PROCEDURES

### ***A. Cash Flows & Liquidity***

Cash flows to the investment portfolios shall be allocated to the Managers by the Vice President and Staff and reported to the Committee. As a general rule, cash flows will first be used to rebalance the total funds in accordance with the SAAT. The Vice President and Staff shall be responsible for maintaining adequate levels of cash to meet the target annual cash distribution to the operating fund of the University, and other liquidity requirements, including anticipated capital calls related to private investments.

### ***B. Transaction Guidelines***

The Committee may, at its discretion, require its active domestic equity Managers to direct a portion or all brokerage transactions for Fund assets under the firm's management, through designated brokers for payment of services rendered in connection with the day-to-day management of the assets. Directed transactions must be on a best price and execution basis. Best execution is defined as achieving the most favorable price and execution service available, bearing in mind the Fund's best interests, and considering all relevant factors.

### ***C. Portfolio Management***

The Committee will retain qualified external Managers to manage portfolios based on a specific style and methodology. The Managers will have full discretion and authority for determining investment strategy, security selection and timing subject to this Policy.

With the assistance of the Consultant, the Vice President and Staff will review on a regular basis, each Manager's adherence to the Policy, and any material changes in the Manager's organization such as staffing changes and new business developments.

Performance of Managers will be reviewed by the Committee on a quarterly basis.

### ***D. Conflict of Interest Policy***

Consistent with the Board of Trustees' Conflict of Interest Policy, the Committee and other fiduciaries will act in the best interests of the University and the invested funds and not for the benefit of the person(s) serving on the Committee or other third parties.

Any conflict or potential conflict of interest on the part of any Trustee or other Committee participant or a member of his or her family shall be disclosed to the Committee Chair at or prior to the time the matter is under consideration by the Committee. The Trustee or other Committee participant will disclose the nature and extent of any such conflict or potential conflict as the Committee Chair shall reasonably require.



No Trustee will vote on any matter under consideration in which such Trustee has a conflict of interest, but the presence of such a Trustee may be counted in determining whether a quorum is present.

The Committee chair will report any conflicts to the Chair of the Board in accordance with the Board's Conflict of Interest Policy.

### ***E. Meeting Schedule***

The Committee will meet to review the performance and compliance of the Fund with objectives and guidelines on a quarterly basis.

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## **RESPONSIBILITIES**

### ***A. Board of Trustees***

- Delegate oversight of the Fund's investment to the Committee and approve the Policy and changes hereto.
- Review and approve the annual distribution from the Fund, as determined under the Spending Policy and as recommended by the Investment and Finance Committees.

### ***B. Committee***

- Establish, review, and update, from time to time, the Policy for the University's invested assets. This includes, but is not limited to, defining portfolio objectives, including asset allocation targets, policy ranges, diversification guidelines, risk tolerance and liquidity objectives, and approval of a benchmark index (or benchmark indices) to be used to evaluate absolute and relative performance.
- Oversee the implementation of the Policy and monitor the achievement of investment and performance objectives, including approval of selection, hiring and termination of Managers upon recommendation by the Consultant and Staff.
- Approve selection, hiring and termination of Consultant upon recommendation by the Staff.
- Review and approve Spending Policy and calculation methodology.
- In consultation with the Finance Committee, recommend annual distribution from the Fund for Board approval.
- Report to the Board on a quarterly basis.

### ***C. Vice President and Staff***

The principal role of the Vice President and Staff is to provide day-to-day implementation of the Policy and any investment changes or directives approved by the Committee. In performing their duties, the Vice President and Staff shall:

- Implement Manager changes approved by the Committee;
- Implement and execute asset allocation approved by the Committee and rebalance as appropriate to maintain adherence to asset allocation strategy;

- Complete all investment documentation, including investment subscription agreements, limited partnership agreements for private capital investments, and any updated documentation requested by Managers;
- Work with the Committee Chair to prepare meeting agendas;
- Work with Consultant on materials for Committee meetings;
- Prepare Committee reports and meeting minutes for the Board of Trustees;
- Make recommendations to the Committee in the selection of qualified Managers;
- Make recommendations to the Committee in the selection of Consultant;
- Assist in the oversight of existing Managers, including performance evaluation and monitoring changes in staffing, ownership, and the investment process;
- Work with Consultant on investment-related topics;
- Evaluate endowment liquidity and recommend any necessary investment liquidations to the Committee;
- Invest uninvested cash, as appropriate;
- Recommend Spending Policy and methodology; and
- Calculate and distribute annual endowment spending amounts in accordance with the Policy.

#### ***D. Managers***

For individually managed accounts, the Managers shall:

- Provide the Vice President or Staff with a written agreement to invest in accordance with the Policy;
- Provide the Vice President or Staff with proof of liability and fiduciary insurance coverage on an annual basis;
- Provide the Vice President or Staff each year with the updated ADV Part II filed with the SEC;
- Adhere to the investment management style as represented to the Committee at time of retention;
- Execute all investment transactions with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost and, where appropriate, direct the brokerage as requested;
- Provide quarterly reports in a satisfactory form;
- Provide annual audited financial statements (applicable to funds);
- Reconcile every month accounting, transaction, and asset summary data with custodian or trustee valuations and communicate and resolve any significant discrepancies; and
- Maintain regular and open communication with the Vice President or Staff and the Consultant, on all significant matters pertaining to the Policy including, but not limited to, the following:
  - The Manager's investment outlook, investment strategy, and portfolio structure;
  - Significant changes in ownership, organizational structure, financial condition, or senior staff;
  - Changes in the portfolio manager or other staff members assigned to manage the allocation;
  - Other issues which the Manager deems to be of significant interest or material importance; and,
  - Meet with the Vice President and Staff and/or Consultant on a regular basis and with the Committee upon request.

### ***E. Consultant***

The principal role of the Consultant is to provide independent advice to the Vice President or Staff and the Committee. In performing its duties, the Consultant shall:

- Make recommendations to the Vice President or Staff and the Committee regarding strategic asset allocation including the addition or substitution of new asset classes;
- Make recommendations to the Committee in the selection of qualified Managers, and assisting in the oversight of existing Managers, including performance evaluation and monitoring changes in staffing, ownership, and the investment process;
- Prepare a quarterly report on Manager performance, and on the performance of each of the portfolios including a review of guideline compliance and adherence to investment style and discipline;
- Work directly with the Vice President or Staff on any investment-related topic;
- Provide topical research and education on investment subjects that are relevant to the general portfolios; and
- Meet with the Committee and the Vice President or Staff as requested.

### ***F. Custodian***

The Custodian's role is to receive, hold, manage, and invest, to the extent directed by the Vice President or Staff, the Fund assets. The Custodian shall:

- Make payments from the funds to such person's organizations as designated in writing, or through the Custodian's secure web platform, by authorized University personnel;
- Keep accurate and detailed accounts of all investments, receipts, disbursements, and other transactions; and
- Provide the Vice President or Staff and the Consultant with a written account of all holdings and transactions on a monthly basis.

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## **RELATED INFORMATION**

<b>Type</b>	<b>Title</b>
USF	<a href="#">Mission Statement</a>
USF	Conflict of Interest Policy
USF	Statement on Fossil Fuel Divestment
USF	<a href="#">Quasi-Endowment Policy</a>
External	<a href="#">Uniform Prudent Management of Institutional Funds Act (UPMIFA)</a>

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ADDITIONAL CONTACTS

Subject	Contact	Phone	Email
AVP, Finance and Treasury	Stacy Lewis	415.422.5540	lewiss@usfca.edu
Analyst	Kevin Chan	415.422.5720	kchan36@usfca.edu

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FORMS

None.

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FREQUENTLY ASKED QUESTIONS

None.

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REVISION HISTORY

12/6/2024 - Approved by Board of Trustees.

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APPENDICES

None.