Tower Foundation of San José State University
Endowment Investment Policies, Guidelines, and Objectives

Purpose of the Endowment Investment Policy Statement

This statement is issued by the Finance and Investment Committee (the “Committee”) of the Tower Foundation of San José State University (“Tower” or “the Foundation”), which has authority from the Board of Directors of the Tower Foundation (the “Board”) to oversee the investment of the Tower Endowment Fund (the “Fund” or “Endowment Fund”) under the guidelines as specified in this Policy.

This Endowment Plan of the Tower Foundation of San José State University was established to facilitate a clear understanding of how to establish an endowment with Tower and of the investment policy, guidelines, and objectives among Tower, Investment Consultants, and the Plan’s Investment Managers. It also sets forth the guidelines and restrictions to be followed by the Investment Managers. Each quarter the Consultant will review with the Client the performance of the portfolio and each Manager's conformity to the Plan's investment objectives. It is the intent of this Plan to be both sufficiently specific to be meaningful as well as flexible enough to be practical.

Tower Foundation of San Jose State University

The Tower Foundation is a 501(c)3 non-profit corporation, established to receive all philanthropic support to San José State University. The Foundation provides a clear system for making sure it receives, acknowledges, and uses donors' gifts properly as well as manages the university's endowment to achieve maximum returns. Approval to establish the Tower Foundation was provided by the California State University System. The Foundation also provides a means, through membership on its Board of Directors, to engage prominent alumni and citizens in the life of the university.

Establishing an Endowment with Tower

A minimum investment of $50,000 is required to establish an endowment. Endowments will be established as one of the following types consistent with the endowment definitions of the National Association of College and Business Organizations:

- True Endowment: Permanent gift that contains provisions prohibiting the original principal amount from ever being invaded, notwithstanding market conditions whereby portfolio losses drop the endowment’s market value below its original contribution.
- Quasi Endowment: Funds that function as an endowment but that have no legal restrictions against spending all or part of the principal.
- Term Endowment: Endowment gifts that may be spent at a specified rate, after a specific date or upon the occurrence of a specific event.

A pre-endowment account may be created when a donor contributes funds towards an endowment as long as the minimum endowment requirements are fulfilled within a 5-year period. Pre-endowment funds will be placed in a money market account and will earn interest at the current money market rate less 1 percentage point for administrative fees.

**Investment Plan**

**Policy**
The long-term financial objectives of the Fund are to produce a relatively predictable and stable spending stream each year and to grow both the spending stream and the corpus over time, at least as fast as the general rate of inflation, as measured by the Consumer Price Index.

The long-term investment objective of the Fund is to earn an average annual real (i.e. after adjusting for inflation) total return that is at least equal to the Fund’s total effective spending rate, net of management fees, over long time periods. Evaluation of progress toward this objective should be made with a long-term perspective.

With this long-term objective in mind, the portfolio shall be invested to provide safety through diversification in a portfolio of common stocks, bonds, cash equivalents, and other investments, all of which may reflect varying rates of return.

The investments shall also be diversified within asset classes (e.g., equities shall be diversified by economic sector, industry, quality, and size). Portfolio diversification provides protection against a single security or class of securities having a disproportionate impact on aggregate performance.

**Laws and Regulations**
As a general rule, the Tower Foundation will follow the Prudent Investor guidelines widely used in the investment management industry, the guidelines of the CFA Institute, and the general fiduciary standards described in the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”).

The Principles of Prudence stated in the UPMIFA include:
1. Act in good faith, with the care an ordinary prudent person would exercise,
2. Incur only reasonable costs in investing and managing charitable funds,
3. Make a reasonable effort to verify relevant facts,
4. Make decisions about each asset in the context of the portfolio of investments, as part of an overall investment strategy,
5. Diversify investments unless due to special circumstances, the purposes of the fund are better served without diversification,
6. Dispose of unsuitable assets.
**Conflicts of Interest**
The Tower Foundation fiduciaries are expected to uphold the highest ethical standards, to conduct themselves with professionalism and dignity, to observe and respect all legal requirements, and to carry out the investment activities in order to promote the best interest of the Tower Foundation.

The fiduciaries are obligated to conduct investment business according to prudent person standards and to disclose or report any conflict of interest which, in their estimation, will hinder judgment or compromise Tower Foundation interests.

The fiduciaries and agents are expected to be generally knowledgeable and observant of current applicable professional standards established by UPMIFA, CFA Institute, UPIA, and by those established in the future.

**Investment Objectives**
The Endowment Fund will employ a total return investment policy with the objective of preserving the endowment’s capital, protecting the purchasing power of the funds, and providing cash flows to assist in the funding of the Tower Foundation’s spending goals. With these objectives in mind, the Foundation will have the following long-term risk and return objectives:

Return: The return objective for the total fund will be to outperform a custom benchmark made up of 60% Russell 3000, 20% MSCI ACWI (excluding US) and 20% Barclays Capital Aggregate Bond Index over a complete market cycle of 3-5 years. The total fund is also expected to rank within the top 40th percentile in the Wilshire Total Fund Universe.

Risk: The total portfolio should experience less risk as measured by the standard deviation than that of a custom benchmark made up of 60% Russell 3000, 20% MSCI ACWI (excluding US) and 20% Barclays Capital Aggregate Bond Index over a complete market cycle of 3-5 years.

The Tower Foundation of San José State University will from time to time adjust the permitted allocation to cash in order to accommodate the need for quick exits from asset classes or products in the event of economic events, departures of key fund managers and investors which might adversely impact the overall portfolio should the Foundation stay invested in that asset instead of making a timely move.

**Spending Policy**
The Tower’s policy is to make a distribution each fiscal year that is based on a trailing three-year average market value of the Endowment Fund as of December 31 of each year. The distribution will range from a minimum 0% to a maximum 5% and is made regardless of challenging short-term investment performance where market value may dip below principal value. The Committee will evaluate the Fund’s performance and other financial data to recommend each year’s distribution rate to the Board no later than the Spring Board meeting. The distribution shall be made available within 30 days of Board approval. An additional distribution (2.0% for endowments with

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principal value less than $1 million and 1% for endowments with principal value of over $1 million) of the Endowment Fund’s market value (not on a trailing average) will be collected to cover Tower’s administrative expenses and invest in future development efforts. The annual distribution will be funded through dividends, interest, and/or capital appreciation (i.e. they will be funded on a “total return” basis).

Asset Allocation
The long-term target asset allocation for the investment portfolio is recommended by the Consultant and approved by the Investment Committee of the Tower Foundation to facilitate the achievement of the long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds among asset classes may be the single most important determinant of the investment performance over the long run, the assets shall be divided into the following asset classes:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Minimum %</th>
<th>Target %</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity Large Cap</td>
<td>15</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>US Equity Small Cap</td>
<td>6%</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>Non-US Equity-Developed Markets</td>
<td>9%</td>
<td>15%</td>
<td>21%</td>
</tr>
<tr>
<td>Non-US Equity-Emerging Markets</td>
<td>0%</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>US Fixed Income</td>
<td>4%</td>
<td>6.5%</td>
<td>10%</td>
</tr>
<tr>
<td>Global Fixed Income</td>
<td>2%</td>
<td>3.5%</td>
<td>5%</td>
</tr>
<tr>
<td>Real Estate (Public &amp; Private)</td>
<td>0%</td>
<td>7.5%</td>
<td>11%</td>
</tr>
<tr>
<td>Commodities/Natural Resources</td>
<td>0%</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Opportunistic Investments</td>
<td>9%</td>
<td>15%</td>
<td>21%</td>
</tr>
<tr>
<td>Private Equity/Venture Capital</td>
<td>0%</td>
<td>7.5%</td>
<td>11%</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
</tr>
</tbody>
</table>

The actual asset allocation, which will fluctuate with market conditions, will receive the regular scrutiny of the Consultant who will recommend, when appropriate to the Investment Committee, making adjustments in order to maintain target ranges and making any permanent changes to policy.

Value & Growth Equities
The primary purpose of the equity allocation is to provide real growth of the corpus and the generation of a growing spending stream. It is recognized that equity investments carry greater market price variability and higher expected returns than other asset classes.

The purpose of the emerging markets allocation is to provide long-term investment opportunities. The attractive entry point and economic resiliency of emerging markets make them a solid component of an investment portfolio. In total these investment should represent approximately 5% of the total assets at market value. Although the actual percentage in emerging market investments will vary with market conditions, levels in excess of 8% will require authorization by the Investment Committee.

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The equity component should consist of small and large cap value or growth equities, and international equities. In total, these equities should represent approximately 58% of the total assets at market value. Although the actual percentage in equity investments will vary with market conditions, levels in excess of 80% or below 32% will require authorization by the Investment Committee.

**Private Equity/Real Assets**
The purpose of the private equity allocation is to provide long-term high growth opportunities invested in equity or equity related securities of companies with low correlation to traditional asset classes. This class includes traditional buyout and corporate private equity venture capital as well as real estate and energy investments. The purpose of the commodities allocation is to provide an inflation hedge and as well as uncorrelated return patterns to both stock and bond markets. The investment in commodity asset classes via commodity futures through the equity markets will be used. In total these investment should represent approximately 5% of the total assets at market value. Although the actual percentage in commodities will vary with market conditions, levels in excess of 8% will require authorization by the Investment Committee.

In total these investments should represent approximately 17% of the total assets at market value. Although the actual percentage in these private equity/real asset investments will vary with market conditions, levels in excess of 26% will require authorization by the Investment Committee.

**Fixed Income**
The purpose of the fixed income allocation is to provide current income, to provide a stable component of return, and to reduce the overall volatility of the Fund.

The percentage of assets allocated to fixed income should be sufficient to ensure that neither the current income nor the principal value of the allocation declines by an intolerable amount during a period of extended deflation. The fixed income allocation should normally represent approximately 25% of the total assets at market value. Although the actual percentage will fluctuate with market conditions, levels of less than 15% and greater than 33% will require authorization by the Investment Committee.

**Cash Equivalents / Liquidity**
The percentage of total assets allocated to cash equivalents should be sufficient to assure enough liquidity to meet any disbursements. Cash equivalents may also be used as an alternative to other investments, when the Investment Manager feels that other asset classes carry higher than normal risk. The cash equivalent allocation should normally represent approximately 0% of the total assets at market value. New cash deposited by the Tower Foundation will be strategically deployed as deemed appropriate by the Consultant.

**Rebalancing**
If an asset class is out of the acceptable range, that asset class will be rebalanced to the target weighting. As a general rule, any cash flows in or out of the portfolio will be used to rebalance the total fund in accordance with target asset allocation guidelines.

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The process of rebalancing may be implemented over the course of more than one quarter to ensure the most efficient timing around purchases and sales.

Manager's Investment Objectives and Guidelines

The Investment Manager shall have complete discretion in the management of the assets subject to the guidelines set forth herein.

Manager Guidelines - All Asset Categories

Mutual funds, commingled funds, or limited partnerships may be used in any category. When one is selected, however, it is expected that the funds will, in general, comply with the Guidelines stated for each asset category. No fund may be used without approval of the Investment Committee.

Fixed Income Guidelines

1. Fixed income securities may be comprised of money market instruments, U.S. Treasury Bonds, Federal Agency Obligations, Municipal Bonds, corporate bonds, mortgage backed securities, asset backed securities, and foreign government securities. Equities are to be excluded.
2. Fixed income managers will maintain an average portfolio duration between 80% and 120% of the duration of the Barclays Capital Aggregate Bond Index. The Investment Manager is expected to employ active management techniques, but changes in weighted average duration should usually be moderate and incremental.
3. The average portfolio quality for all fixed income managers will be A/A2 or better as measured by Standard & Poor’s/Moody’s.
4. At a minimum, 80% of the fixed income portfolio will be rated investment grade or higher (BBB- by S&P or Baa3 by Moody’s).
5. The Investment Manager may hold up to a maximum of 20% in securities denominated in foreign currencies.
6. All fixed income Managers in this category are expected to outperform the Barclays Capital Aggregate Bond Index on an after fees basis over rolling three- to five-year periods. Additionally, they are expected to outperform the median manager in the Wilshire Fixed Income Manager Universe.

Domestic Equity Guidelines

1. Subject to limitations noted below, Investment Managers may invest in equity securities listed on the principal U.S. exchanges or traded in the over-the-counter markets, including American Depository Receipts (“ADRs”).
2. Convertible securities will be regarded as equity securities within the portfolio. Equity Investment Managers may at their discretion hold convertible bond issues with the understanding that the performance of their total account will be measured against the appropriate common stock indices.
3. No individual equity commitment in a Manager’s portfolio (excepting mutual fund shares) should exceed 10% of the market value of the portfolio.
4. No individual equity commitment in a Manager's portfolio should exceed 5% of the issuer's outstanding equity securities.

5. Equity portfolios will be diversified across sectors and industries. Investment in a single economic sector can be no more than three times the weight of the economic sector of their specific benchmark (point 7), or 25% whichever is greater.

6. Cash equivalents may be held in the equity portfolio at the Manager's discretion. Managers will be evaluated, however, based upon their performance relative to the appropriate equity index benchmark.

7. Over rolling three to five year periods, each of the equity Managers is expected to outperform an appropriate benchmark, net of fees, as well as the median manager in an appropriate universe as defined below (The Investment Committee recognizes that the pursuit of long-term out performance is likely to increase the volatility of returns and will increase the risk that the Manager may under perform the benchmark over short to intermediate time periods).

**Large Capitalization Value Investment Managers:**

Russell 1000 Value Index
Wilshire Large Cap Value Universe

**Large Capitalization Growth Investment Managers:**

Russell 1000 Growth Index
Wilshire Large Cap Growth Universe

**Small Capitalization Value Investment Managers:**

Russell 2000 Value Index
Wilshire Small Cap Value Universe

**International Equity**

If a separately managed portfolio is selected for the international equity allocation, the following guidelines will apply. If a commingled or mutual fund is selected as the investment vehicle for international equities, the portfolio guidelines in the fund prospectus should generally comply with the overall nature of the restrictions listed below.

1. An individual issue should be limited to no more than 5% of the market value of the Manager's portfolio.

2. No individual equity commitment in a Manager's portfolio should exceed 5% of the issuer's outstanding equity securities.

3. International Equity portfolios will be diversified across countries and sectors.

4. Convertible securities will be regarded as equity securities within the portfolio. Equity Investment Managers may at their discretion hold convertible bond issues with the understanding that the performance of their total account will be measured against the appropriate common stock indices.

5. Cash equivalents may be held in the equity portfolio at the Manager's discretion. Managers will be evaluated, however, based upon their performance relative to the appropriate equity index benchmark.
6. All international equity Managers in this category are expected to outperform the MSCI EAFE Index, net of fees, over rolling three- to five-year periods. Additionally, they are expected outperform the median manager in the Wilshire International Equity Universe.

**Social Responsibility**

The Board has discussed and reviewed the Foundation’s role in the areas of Environmental, Social and Governance (ES&G) and Socially Responsible Investing (SRI) as they apply to the investment portfolio of the Foundation. It is the Foundation’s intention that, as long as returns to the endowment are not detrimentally impacted, the Foundation prefers to invest with fund managers who have incorporated ES&G and SRI principles in their investment processes.

The Tower Foundation operates in this manner because:

- We consider this to be consistent with our fiduciary obligations to our constituents in the light of changing external markets and world conditions.
- We expect these actions will lead to better returns for our endowment if prudently and properly managed.
- ES&G and SRI are expected to impact on the long-term sustainability of companies and assets, and therefore form an important input to the risk management process.
- Investment Managers who effectively manage the risks and opportunities arising from ES&G and SRI issues are more likely to be successful over the long term than those that do not.

To encourage Investment Managers to integrate ES&G and SRI the Finance and Investment Committee of the Tower Foundation takes the following actions:

1. Include a clause requiring Investment Managers to consider ES&G and SRI issues within their investment processes in all new or renegotiated fund manager guidelines.
2. Assess Investment Managers’ abilities to incorporate ES&G and SRI in their investment process as part of the manager assessment and due diligence process.
3. Encourage Investment Managers to review the PRI and to source and review ES&G and SRI related research.

The Foundation notes that Investment Managers’ integration of ES&G and SRI does not imply the exclusion of the particular companies from the investment universe on ethical grounds. Instead, integration of ES&G and SRI requires that the impact of any of these issues on the value of a company is included in the valuation process.

Should there be any inquiries, those questions would be directed to the Chief Operating Officer of the Tower Foundation who will take the request forward to the Finance and Investment Committee for response.
It is the responsibility of the Committee to ensure that the social and ethical goals of the Foundation are reflected in the portfolio. In this regard, the Committee may issue periodic restrictions on specific investments.

The Tower Foundation will not invest knowingly in countries whose governing regimes are deemed by the Board to deny, through proclamations or constitutional prohibitions, participation by its nationals in the elective processes of the national government or holding of public office because of race.

**Prohibited Transactions**

Derivatives may be used by the Fund’s Investment Managers to hedge existing portfolio investments (e.g. to hedge the currency risk of a foreign stock or bond position) or to create un-leveraged investment positions as a more efficient and cheaper alternative to investments that would otherwise be made in the cash market. Derivatives may not be used by marketable securities managers to leverage a portfolio or increase its risk above that of an account with similar objectives that is managed without derivatives. Use of derivatives by an Investment Manager other than as described in this paragraph is permitted only if authorized by the Committee.

No assets shall be invested in private placements or letter stock without prior approval by the Committee. Short selling and use of leverage is also prohibited without prior approval of the Committee.

**Consultant Communication**

The Investment Consultant will provide the following:

- The Consultant will provide proactive advice on all aspects of the investment portfolio including, but not limited to, investment policy changes, asset allocation decisions, and investment manager termination.
- Each quarter the Consultant will review and discuss performance measurement and evaluation reporting for each Investment Manager and for the overall Fund, which will include:
  - Performance results in relation to stated objectives and policy guidelines, including both rates of return and an examination of the risk the Investment Manager assumed in order to achieve that return.
  - Comparison of individual Investment Manager performance versus the appropriate relative index for the most recent quarter and for the 3 to 5 year period then ended (or for shorter periods as may be appropriate). In addition, each Investment Manager will be evaluated relative to their stated investment style and will be expected to perform in the top 40% of a peer universe.
  - The total fund is also expected to rank within the top 40th percentile in the Wilshire Total Fund Universe.
- Review and discussion of any changes in economic conditions, investment manager issues, policy guidelines, or situations that might affect the performance.
Annually, the Consultant will review the Policy and will recommend any appropriate changes. The Consultant will, as appropriate, provide asset allocation studies as well as screen and introduce alternative investment management firms or strategies.

**Proxy Voting**
All individual Investment Managers shall be responsible for voting the proxies of their portfolio holdings. Investment Managers shall be required to provide a detailed analysis of all voting activities on an annual basis (calendar year). Investment Managers should vote all proxies to the best of their abilities to increase shareholder value.

**Investment Manager Communication**
The Tower Foundation requires that each Investment Manager be responsible for preparing thorough quarterly account statements as well as a summary of all activity. The statements will include:
- Purchases and sales - type of security, number of shares, price per share.
- Assets - type of security, number of shares, market value.
- Income receipts - both equity and fixed income.
- Bond market values and accrued income.
- Fees and/or commissions

Each Investment Manager is required to be available to meet with the Investment Committee on an annual basis. Investment Managers are required to inform the Tower Foundation in writing and within 10 days of any change in firm ownership, organizational structure, professional, personnel, or fundamental investment philosophy.

**Investment Manager Termination**
Investment Managers may be terminated or put on probation at the discretion of the Consultant and with the approval of the Committee at any time.

Investment Managers may be placed on probation if any of the following occur:
1. Significant out performance or underperformance for any quarter relative to benchmark and peers
2. Trailing three year performance falls below the designated benchmark
3. Trailing three year performance falls below the median investment manager in their particular peer universe
4. Ownership structure changes
5. Any turnover of key investment decision makers
6. Changes in investment process or philosophy including investment style drift
7. Investment guideline violation

Once an investment manager is placed on probation, the Consultant shall provide an in-depth analysis of the firm with particular attention to pertinent issues that caused the firm to be placed on probation. Consultant shall conclude this analysis with a specific recommendation to the Committee. If appropriate, a special meeting shall be held to discuss the status of the Investment Manager.
**Transaction Guidelines**

All transactions should be entered into on the basis of best execution (*best realized net price*). Notwithstanding the above, reasonable commissions may be directed for payment of services rendered in connection with the day to day management of assets.

**Fund Oversight**

1. The Committee will monitor the Fund on a continual basis for consistency of investment philosophy, return relative to objectives, and investment risk. Risk will be evaluated as a function of asset concentration, exposure to extreme economic conditions, and performance volatility. The Committee will normally review the Fund’s asset allocation, manager team, and performance quarterly in order to evaluate diversification and progress toward long-term objectives. The Committee will evaluate the Investment Managers’ total return without regard to whether the return was in the form of income or capital appreciation. While short-term results will be monitored, it is understood that the objectives for the Fund are long-term in nature and that progress toward these objectives will be evaluated from a long-term perspective.

2. Although Investment Managers’ investment performance will normally be evaluated over rolling three- to five-year periods, the Committee will evaluate each Investment Manager periodically in order to establish that the factors that led to initial performance expectations remain in place and that each Managers’ philosophy is appropriate for the Fund’s overall objectives.

3. It is expected that the committee will provide each separate account Manager with a set of mutually agreed-upon guidelines. In the case of investments made in commingled or mutual funds, the Consultant will summarize the investment strategy and performance objectives for each commingled/mutual fund in which the Fund is invested. Subject to such guidelines and the usual standards of fiduciary prudence, the Managers will then have complete discretion over the funds.

4. If a Manager of a separate account believes that any policy guideline inhibits his or her investment performance, it is his or her responsibility to communicate this view in writing to the Consultant.

5. The Committee acknowledges that, if it elects to invest in a commingled or mutual fund, the policies established for such fund will govern and may not comply fully with policies established for the Fund. The Consultant and Committee will periodically review the policies of any commingled/mutual fund investment to determine if they are appropriate for the Fund.

6. At its sole discretion, the Committee may terminate any Manager at any time if it determines, for whatever reason, that the Manager is no longer appropriate for the Fund.

7. The Committee will periodically review the related services provided to the Tower Foundation, including custodial services, performance evaluations, and consulting.