

Original Policy Approved by Board of Trustees December 10, 1991
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**UC SAN DIEGO FOUNDATION
INTERMEDIATE TOTAL RETURN FUND (ITRF)
INVESTMENT POLICY AND GUIDELINES**

PHILOSOPHY

The Intermediate Total Return Fund (ITRF) was established as of January 1, 1992 by action of the Board of Trustees of the UC San Diego Foundation. Its purpose is to provide an alternative investment option specifically for discretionary current funds that are not going to be expended in the near-term. It is recognized that this investment option has substantially higher market risk, and potential for capital appreciation, than is normally found with current fund investments.

INVESTMENT OBJECTIVE

The investment objective of the ITRF is to provide a total return to current funds which includes potential for capital appreciation rather than the usual stricter objectives of safety and current income.

INVESTMENT POLICY/PROCEDURE AND ASSET MIX

It shall be the policy of the Board to invest the assets of the ITRF with the Treasurer of the Regents of the University of California, in certain of the pooled funds managed by the Treasurer. There are two investment pools available for ITRF funds:

POOL ONE - Investment Mix:

- 40% Lehman Aggregate Bond Index
- 50% General Endowment Pool (GEP)
- 10% Short Term Investment Pool (STIP)

POOL TWO - Investment Mix:

100% General Endowment Pool (GEP)

Although a fund administrator may request the Foundation to consider investment of a current fund in one of the pools in the ITRF, the decision to invest is solely the decision of the Foundation Board. The Chief Financial Officer (CFO) of the Foundation will determine if a particular current fund meets the criteria of the Guidelines and whether or not the ITRF investment option is appropriate for a fund. Upon the CFO's recommendation, the Board delegates the final decision for investment of a current fund in the ITRF to the Chair of the Investment Committee.

Of the two pools, Pool One has a much higher percentage of fixed income securities; as such, it represents the lower risk/return pool of the two. Pool Two is comprised of 60% to 80% stocks, and represents the higher risk/return pool. Guidelines for the use of each of these pools follow in the Administrative Guidelines section of this Policy.

VALUATION

Each of the two pools of the ITRF are separately unitized, similar to the unitization of a mutual fund or an endowment fund, for purposes of pricing purchases, withdrawals, and market values. The pools are unitized and valued at each month end.

INCOME ALLOCATIONS (SPENDING POLICY)

Funds invested in the ITRF will be allocated spendable income at least quarterly. The amount allocated to each fund will be calculated based upon the five-year average unit value of a unit in the respective ITRF pool (same method as is used for the Foundation's endowment funds). The following formula will be used:

First Calculation:

$$\begin{array}{l} \text{Average \# of} \\ \text{Units Owned} \\ \text{for the quarter} \end{array} \quad \times \quad \begin{array}{l} \text{5-Year} \\ \text{Average Unit} \\ \text{Value} \end{array} \quad = \quad \begin{array}{l} \text{Average Market} \\ \text{Value} \end{array}$$

Second Calculation:

$$\begin{array}{l} \text{Average Market} \\ \text{Value} \end{array} \quad \times \quad \begin{array}{l} \text{Endowment Payout Rate} \\ \text{(set annually)} \end{array} \quad = \quad \begin{array}{l} \text{Actual quarterly} \\ \text{dollar distribution of} \\ \text{expendable income to} \\ \text{ITRF funds} \end{array}$$

ADMINISTRATIVE GUIDELINES

Administrative Guidelines for the operation of the ITRF are:

General Guidelines:

1. Current funds donated solely for UCSD approved capital projects may not be invested in the ITRF, due to the higher risk element and potential for loss of principal.
2. Foundation current fund holders may request investment of discretionary current funds in a Pool in the ITRF; however, the investment decision is solely that of the Board and its designee's in accordance with the Foundation's fiduciary responsibility. When making the request, a fund holder must sign the attached letter of attestation regarding their understanding of the policy and guidelines of the ITRF, and the inherently higher risks associated with the investment securities in the ITRF versus the Current Funds investment pool.

Specific Guidelines

1. The minimum size of any current fund that may be invested in the ITRF is \$25,000.
2. On a one-time basis, a fund administrator may make a written request to the Foundation CFO at mail code 0940 that a fund be completely divested from the ITRF and reinvested in the Foundation's Current Fund investment portfolio. The divestment will be effective as of quarter end for the quarter in which the request is approved. However, requests for transfers between Pool One and Pool Two of the ITRF may not be made.
3. Withdrawals of principal may be made from the ITRF, only for the purpose of transfer to The Regents for expenditure. Withdrawals require a 30-day advance written notice to the Foundation CFO at mail code 0940 may be no less than \$5,000, and are limited to one per quarter. Actual divestment from the fund to meet withdrawal requests will only be made at quarter-end for the quarter in which the request is received.
4. Realized investment gains or losses attributable to ITRF fund principal withdrawal requests will be charged to the individual fund requesting the withdrawal. The realized gain or loss will be calculated by comparing the per unit cost basis of the withdrawal, versus the per unit market value of the withdrawal.
5. Fund administrators may elect to reinvest ITRF income allocations in the principal of the respective ITRF pool, or to have them remain available for expenditure. If they are to remain available for expenditure, the amount of the quarterly income allocation will be transferred and invested in the Foundation's current fund investment pool. Once per fiscal year (July 1 to June 30) fund administrators may elect to change the reinvestment or expenditure option of the income allocations on a prospective basis. If a change is desired, fund holders should send written notification to the Foundation CFO at mail code 0940. The change will be effective for the quarter in which the notice is given.
6. Staff will report ITRF investment performance to the Investment Committee and the Board on a quarterly basis. Fund administrators will be advised at least annually of ITRF performance returns, market value of each individual fund, and estimated expendable income for the next fiscal year, based on the existing fund market value.

TO BE PLACED ON DEPARTMENT LETTERHEAD

Date

UC San Diego Foundation
9500 Gilman Drive, Mail Code 0940
La Jolla, CA 92093-0940

Attention: Chief Financial Officer

SUBJECT: Letter of Understanding
Intermediate Total Return Fund (ITRF)

I am the fund administrator of UC San Diego Foundation current fund #_____, entitled “_____.” I am writing to request that the Foundation Board consider investing this current fund in the Foundation’s Intermediate Total Return Fund (ITRF). I understand that this fund is an asset of the UC San Diego Foundation, and its Board of Trustees is fiduciarily responsible for all decisions regarding investments of its funds under the laws of the State of California. At its sole discretion, the Board may choose not to honor this request. I understand that I will be notified if that is the case.

I have received and read a copy of the Foundation’s ITRF Investment Policy and Administrative Guidelines. To ensure the Foundation Board that I understand the nature of this request, I assert the following:

I understand that the investment objective of both pools in the ITRF is to enhance **long-term** capital appreciation. The inherent risk for any investment, but particularly those with the potential for capital appreciation, is the associated risk of market decline and loss, especially in short-term periods. I understand that funds invested under the ITRF Policy have a substantially greater element of market risk and volatility than those invested under the Foundation’s Current Fund Investment Policy.

Additionally, I request that the Board consider investing this current fund in the ITRF Pool as checked below (check only one box):

Pool One (40% Lehman Aggregate Bond Index/ 50% GEP/ 10% STIP)

or

Pool Two (100% GEP)

I understand, should the Board choose to honor this request, that my selection above is binding and will influence the Foundation's investment decision with regard to a selection of ITRF pool investment mix.

I understand, should the Board choose to honor this request, that income allocations will be made to this fund quarterly as disclosed in the Guidelines. I have indicated below my selection for whether interest allocations should be reinvested in the ITRF, or whether they should remain available for transfer to the Regents for expenditure.

Reinvest quarterly income allocations in the ITRF.

or

Make quarterly income allocations available for expenditure.

Sincerely,

Signed: _____

Name: _____

APPROVED BY UC SAN DIEGO FOUNDATION

Marlene D. Shaver
Chief Financial Officer

Date