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I. Introduction

This investment policy statement has been established by the Investment Committee of the Board of Trustees of the University of the Pacific ("Pacific") to govern the financial management of the Pacific Endowment ("Fund"). The purpose of the Investment Policy is to guide the Investment Committee ("Committee"), the Chief Financial Officer ("CFO"), the Investment Managers ("Managers") and the Investment Consultant ("Consultant") in effectively supervising, monitoring and managing the investments of the Fund.

This Policy will address the following issues:

- The general goals of the Fund
- The specific investment objectives of the Fund
- Asset allocation and rebalancing policies
- Policies and guidelines for the management of investments
- Manager evaluation procedures
- Duties of responsible parties

This policy statement is designed to allow for sufficient flexibility in the management oversight process, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program. Additionally, managers will be guided by specific Investment Manager Guidelines which outline portfolio guidelines, authorized investments, prohibited securities, performance objectives and reporting requirements.

This Investment Policy Statement incorporates 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 the care, skill, prudence, and diligence under the circumstances then prevailing of a prudent person acting in a like character and with like aims.

It is the general practice of Pacific to pool endowment resources. This statement sets out explicit policies for the pooled endowment but would apply to non-pooled holdings as well. All objectives and policies will remain in effect until modified by the Investment Committee, which will review them at least annually.

II. General Information

The investment and spending policies seek to ensure prudent management of endowment assets in order to serve the long-term best interests of the various programs that rely on endowment income for operational support. The Pacific Endowment represents a collection of individual endowments from benefactors that in aggregate form a fund from which earnings will support the purposes of each endowment for generations to come. These investment and spending policies reflect the unique needs and preferences of the University, while providing investment strategies required to preserve, in perpetuity, the purchasing power of the funds. Investment and spending policies adhere to accepted investment principles.
III. Investment Plan

A. Spending Policy

Distributions from the Endowment will be made in accordance with the California Prudent Management of Institutional Funds Act (CPMIFA) as adopted by the state of California, which permits the institution to determine the prudent amount to be allocated for expenditure from endowment funds subject to the restrictions of any gift agreements.

The Board is to set the rate at which funds are released for current spending and may, in response to changing economic circumstances, raise or lower the distribution percentage in any given year. The Endowment’s current spending policy is a target rate of 4.5% of a three-year moving average of the market value of each endowment as of June 30th of each year. The University has set a goal to incrementally reduce the spending rate to 4.0% by FY2014. If an endowment has existed less than three years, the market value for purposes of applying the spending rate shall be the average of the year end values since that endowment was established. Funds from spending will be distributed in quarterly installments.

Spending is to be based on a total return strategy which includes both appreciation (realized and unrealized gains) and income. If in any given year, total return is less than the targeted annual distribution, accumulated realized gains may be utilized as a supplement.

B. Investment Policy

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

1. **Total Return**

   Endowment assets will be managed on a total return basis while taking into account the level of investment income required. While the Committee recognizes the importance of the preservation of capital, they also adhere to the principle that varying degrees of investment risk are generally rewarded with concomitant returns over the long-term.

2. **Diversification**

   Endowment assets will be diversified among classes of assets, as well as within each asset class including diversification among sectors and industries, quality, market capitalization, and investment strategy 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.

3. **Liquidity**
In allocating the Fund to different managers and different asset classes, the Committee recognizes the need to be mindful of the overall liquidity of the portfolio. At least 60% of the Fund should remain “liquid” defined as Level One and Level Two assets according to SFAS No. 157. Level One assets have quoted prices in active markets for identical investments. Level Two assets have pricing inputs which generally require other observable inputs, such as quoted prices for similar investments. Both Level One and Level Two assets generally trade on a daily basis and therefore can be considered “liquid”.

4. **Prudent Man Rule**

Endowment 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 Endowment will be governed by the “Prudent Man Rule”. “The Prudent Man 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.

5. **Social Responsibility**

Management of the Endowment assets shall not be inconsistent with the Vision, Mission, and Values of Pacific.

C. **Investment Objectives**

1. **Return:**

The long-term return objective for the Endowment is to exceed the CPI (Consumer Price Index) plus 5% net of fees. Over rolling three and five year periods, the return objective for the portfolio is to exceed by 50 basis points, net of fees, the “market” defined below as the Portfolio Policy Index.

<table>
<thead>
<tr>
<th>Policy Portfolio Index</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target</td>
<td>U.S. Stocks</td>
</tr>
<tr>
<td>30%</td>
<td>Non-U.S. Stocks</td>
</tr>
<tr>
<td>20%</td>
<td>Fixed Income</td>
</tr>
<tr>
<td>15%</td>
<td>Private Equity</td>
</tr>
<tr>
<td>12%</td>
<td>Hedge Funds</td>
</tr>
<tr>
<td>13%</td>
<td>Real Assets</td>
</tr>
<tr>
<td>10%</td>
<td>Total</td>
</tr>
<tr>
<td>100%</td>
<td>Total</td>
</tr>
</tbody>
</table>
Policy Portfolio Objective

The total return of the University’s investment portfolio will be evaluated periodically against the return of a Portfolio Policy Index consisting of approved benchmarks weighted in proportion to the endowment’s asset allocation policy targets for each asset class. The total portfolio over the long term will be expected to exceed the Portfolio Policy Index return over rolling five-year periods.

Peer Group Objective

Another long-term objective of the Endowment is to outperform its peer group universe measure over rolling periods of five years. The benchmark for this measurement will be the NACUBO median for Endowments with assets of $100 million to $500 million or a similar benchmark that measures university and college endowment fund performance.

2. Risk

In light of the Endowment’s long-term time horizon, the fund can 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. Reasonable consistency of returns is desirable as a means of providing stability to the process of managing all University financial assets.

The Endowment should experience risk as measured by volatility and variability of return, commensurate with that of the market as expressed by the Portfolio Policy Index. Given long-term characteristics of the asset classes represented in the Portfolio Policy, the range of returns in any given year ninety percent of the time are likely to fall between a high return of 30% and a low return of -10%.

D. Asset Allocation

1. Strategic Targets

The asset allocation targets for this Endowment are developed to facilitate the achievement of the Endowment’s long-term investment objectives within the established risk parameters. Endowment assets shall be invested in accordance with the target percentage and allowable ranges for each asset class as shown below. It is recognized that unanticipated, short-term market shifts or changes in economic conditions may cause the asset mix to vary from the policy target. The Committee will review these targets at least annually and whenever the investment horizon for any portion of the Endowment changes.
There will be an orderly process to reach strategic targets. The Endowment shall currently be divided into the asset classes set forth below:

<table>
<thead>
<tr>
<th>Strategic Allocation Target (%)</th>
<th>Allowable Range (%)</th>
<th>Passive Benchmark</th>
<th>Active Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>30</td>
<td>20-40</td>
<td>Russell 3000</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>20</td>
<td>10-30</td>
<td>MSCI ACWI ex-U.S.</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>15</td>
<td>10-35</td>
<td>Barclays Aggregate</td>
</tr>
<tr>
<td>Cash</td>
<td>0</td>
<td>0-10</td>
<td>90-day T-Bills</td>
</tr>
<tr>
<td>Private Equity</td>
<td>12</td>
<td>0-20</td>
<td>90-day T-Bills + 8%</td>
</tr>
<tr>
<td>Hedge Fund</td>
<td>13</td>
<td>0-20</td>
<td>90-day T-bills + 4%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>10</td>
<td>0-15</td>
<td>NAREIF and Dow Jones Commodity</td>
</tr>
</tbody>
</table>

2. **Role of Asset Classes**

**Equities**

It is anticipated that total returns of equities will be higher than total returns of fixed income securities over the long run but are likely to be subject to greater volatility over shorter periods.

**U.S. Equities** – It is intended that the domestic equity portion of the portfolio will provide exposure to different investment styles as well as the full range of market capitalization. The purpose of exposure to different investment styles is to minimize portfolio volatility as well as to enhance returns because different styles have historically had different performance cycles. Inclusion of managers specializing in managing portfolios with an emphasis on different market capitalizations is also important to minimize volatility and enhance returns as companies with different market capitalizations often have different growth cycles and stock prices that move in patterns.

**Non-U.S. Equities** - This segment provides access to major equity markets outside the US and consequently plays a significant role in diversifying the
Endowment’s equity portfolio. This segment will provide exposure to developed and developing non-US markets, whose growth and returns are not correlated with those of the US. This core international segment will concentrate on larger companies in established non-US equity and emerging markets and will exhibit both growth and value characteristics. International equities include both the ordinary shares of non-US companies and American Depository Receipts (ADRs) traded on American exchanges.

**Fixed Income**

The primary role of the fixed income portfolio is to provide a source of stability that acts as a buffer relative to more volatile portfolio segments, i.e., equities. In addition, the Endowment’s bond portfolio will 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 dampen the overall volatility of total Endowment results, which is important to help mitigate losses in periods of falling equity markets. It is intended that the overall fixed income portfolio will be of high quality, at least AA. No more than 20% of the fixed income segment shall be allocated to fixed income issues rated lower than investment grade. No more than 35% shall be allocated to non-U.S. issues.

**Alternative Investments**

The purpose of using alternative investments is to reduce the volatility of the overall portfolio and to provide an alternative source of return from that of the traditional domestic and international capital markets.

Alternative asset classes may include marketable securities, real estate, venture capital, private equity, commodities or distressed investment. Alternative investment strategies are defined as investment programs that offer the portfolios access to strategies that have low relative correlation to the domestic equity and fixed income markets. Managers exploit market inefficiencies while minimizing exposure and correlation to traditional stock and bond investments.

**IV. Policies and Procedures**

**A. Rebalancing and Cash Flows**

The purpose of rebalancing the portfolio on a regular basis is to maintain the desired risk/return characteristics to meet the objectives for the portfolio. Cash flows to and from the portfolio will be used to rebalance the portfolio and may be allocated to or from the Managers by the CFO or his delegate and reported to the Committee. In
addition, on at least an annual basis, Manager accounts should be rebalanced towards the long-term asset allocation targets. The purpose of rebalancing is to maintain the risk/reward relationship implied by the stated long-term strategic asset allocation targets. As a guideline to the rebalancing process, Manager accounts shall be considered "out of balance" if they differ from their target allocation by more than 5.0% with the exception of illiquid investments. This process may result in withdrawing assets from Managers that have performed well in the latest year or adding assets to Managers who lagged in the most recent period. This policy may also necessitate the purchase and/or sale of securities which could create additional transactional costs to the portfolios and the recognition of capital losses. The purpose of rebalancing, however, is to maintain the risk/return characteristics of the target strategic asset allocation.

B. Transaction Guidelines

The Committee may, at its discretion, require its active Managers to direct a portion or all brokerage transactions, for Endowment 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 Endowment's best interests, and considering all relevant factors.

C. Proxy Voting

Voting of proxies in stocks held by the Endowment will be done in a manner that is in the best financial and economic interests of the Endowment and its beneficiaries by those best able to make such assessments. Normally this will be the Endowment’s portfolio managers. Each Manager shall match proxies received with holdings on applicable record dates, and ensure that all proxies for which the Manager is responsible are received. In addition, the Managers shall submit written reports to the Committee (through the CFO) upon request advising of the manner in which each proxy was voted during the preceding period.

D. Portfolio Management Policy

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 these Policies. The Committee may also use index funds in place of active managers for added flexibility.

With the assistance of the Consultant, the Committee will review on a regular basis, each Manager's adherence to the Policies, 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.

1. **Guidelines for the Selection of Traditional Investment Managers**

Criteria will be established for each Manager search undertaken by the Committee and will be tailored to the Committee's needs. In general, eligible Managers should possess the following illustrative attributes:

- An appropriate performance history in the discipline specified by the appointment;
- Demonstrated adherence to the investment style for which they were engaged and adherence to the firm's stated investment discipline;
- Experience in managing money for institutional clients in the asset class/product category specified by the appointment;
- A record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients;
- A sufficient asset base. In general, Managers should have at least $250 million of discretionary institutional assets under management, and the assets of the Endowment should make up no more than 10% of the firm's total asset base. Exceptions may be made on a case-by-case basis;
- A fee structure that is competitive with industry standards for the product category;
- SEC-Registration as an Investment Advisor (or exempt from registration) that is recognized as providing demonstrated expertise in the management of investments for tax-exempt institutions and a defined investment specialty;
- The willingness and ability to comply with the "Duties of the Investment Managers" outlined herein;
- A firm where Principals have worked together at a prior organization may also be considered; and
- To the extent that the Endowment invests through mutual funds, commingled accounts or limited partnerships, it is expected that the objectives and guidelines will be closely aligned with the policy statement with the understanding, however, that these investments will be managed according to their prospectus and limited partnership agreements, and that customization of guidelines will generally not be possible.

2. **Guidelines for the Selection of Alternative Investment Managers**

It is recognized that the selection process for managers of alternative asset classes and alternative strategies requires an additional degree of due diligence because of the general nature of the investments as well as the lack of publicly monitored and recorded data. Investments in these strategies shall be made by becoming a limited partner in
some form of partnership structure. Particular care will be given to the identification and understanding of the following:

- A clear description and understanding of the partnership structure;
- A clear understanding of the strategy as described in the Private Placement Memorandum or Offering Memorandum;
- Identification of any allowable security or strategy that is identified as specifically prohibited in other parts of this Policy;
- Identification of the amount of leverage allowed as well as other described risks;
- The terms of the Agreement to include the termination date of the fund, the ability to withdraw funds, the management fee structure, allocation of profits and losses, incentive allocation, and distribution rules.
- In addition to the clarity of the strategy and the terms of the Agreement, particular attention will be given to:
  - The reputation of the General Partner (GP);
  - The track record of the Fund or the GP in prior funds;
  - The length of time that the GP have worked together as a team;
  - The amount of financial commitment by the GP in the fund;
  - The existence of a third-party administrator and external auditor;
  - And, other factors to determine the integrity of manager.

E. Roles and Responsibilities

1. Duties of the Investment Managers

For individually managed accounts, the Managers shall:

- Provide the CFO with a written agreement to invest in accordance with the Policies;
- Provide the CFO with proof of liability and fiduciary insurance coverage on an annual basis;
- Provide the CFO each year with the updated ADV Part II filed with the SEC;
- Provide the CFO each year with updates on SEC violations by the firm;
- Vote the proxies in accordance with these Policies;
- 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 transaction, valuation and performance reports;
- Provide its valuation methodology and policy, as appropriate;
- Funds are required to provide annual audited financial statements; exceptions may be made on a case-by-case basis.
Investment Policy Statement

1. Responsibilities

- Reconcile every month accounting, transaction and asset summary data with custodian or trustee valuations and communicate and resolve any significant discrepancies; and
- Maintain frequent and open communication with CFO and Consultant, on all significant matters pertaining to the Policies including, but not limited to, the following:
  - The Manager’s investment outlook, strategy and portfolio structure;
  - Significant changes in ownership, organizational structure, financial condition or senior staffing;
  - 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 CFO, Consultant and/or Committee at least once each year.

2. Duties of the Investment Consultant

The principal role of the Consultant is to provide independent advice to the CFO and the Committee. The Consultant shall be responsible for the following:

- Making recommendations to the CFO and the Committee regarding investment policy and strategic asset allocation including the addition or substitution of new asset classes;
- Making 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;
- Preparing a quarterly report on the Managers performance, and on the performance of each portfolios in total including a review of guideline compliance and adherence to investment style and discipline;
- Provide research and due-diligence materials on investment manager searches
- Working directly with the CFO and other staff on any investment-related topic;
- Providing topical research and education on investment subjects that are relevant to endowment portfolios; and
- Meeting with the Committee and the CFO as requested.

F. Meeting Schedule

The Committee will meet to review the performance and compliance of the Endowment to objectives and guidelines at least three times per year and on an as needed basis.
V. Manager Guidelines and Objectives

A. Definition

For the purpose of these Guidelines, Managers refers to those managers investing in traditional asset classes of stocks, bonds, and cash equivalents as well as in traditional long-only strategies. Guidelines for selection of Alternative Investment Managers are included in Section IV, D, 2.

B. Discretion

Managers shall have complete discretion in the management of the assets subject to the Guidelines set forth herein. Compliance with these Guidelines is the responsibility of each Manager. It is the responsibility of each Manager to report compliance exceptions to the CFO as they arise. Managers may request an Exception of Policy which may be accepted by the Committee. Mutual funds or other commingled funds may be used in any category of investment management. When one is selected, however, it is expected that the fund(s) will, in general, comply with the guidelines set forth herein.

C. Use of Cash Equivalents

Cash equivalents may be held in any Manager's portfolio at the Manager's discretion. Managers will be evaluated, however, based upon the performance of their total fund component relative to the appropriate index benchmark, regardless of the amount of cash equivalents held during any performance measurement period.

D. Use of Derivatives

Derivatives are defined as investment instruments, which “derive” value from an underlying commodity, index or security. Examples include futures, options, and collateralized mortgage obligations (CMOs). Managers and the custodial trustee may use derivative instruments to achieve desired asset characteristics or returns, or to control or manage portfolio risk. With the exception of managers defined as Alternative Investment Managers, no derivative positions that create portfolio characteristics outside of portfolio guidelines may be established by the investment managers. They may not utilize derivatives for speculative purposes:

Illustrative examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes, gaining exposure to an asset class synthetically, and adjusting portfolio duration for fixed income.

Managers may use derivative securities in the following manner so long as the inclusion of such instruments is consistent with the strategy originally specified when the firm was initially retained.
• It is recognized that index futures contracts can provide a cost-effective means of maintaining an asset allocation or securitizing a portfolio in the event of a manager termination or transfer. The Committee retains the right to review the specific use of these securities under special circumstances.

• International managers may hedge currency as a part of the investment management and risk reduction process. Currency forward or futures contracts may be used in this process.

• New York Stock Exchange listed American Depository Receipts (ADRs) may be used by the domestic equity managers for up to 15 percent of the portfolio investments unless a greater amount is approved by the Committee. International equity managers may use ADRs in place of the ordinary shares of foreign securities when their research indicates the ADR issues are more attractively valued.

• The fixed-income investment manager may include mortgage-backed instruments as well as asset-backed securities and commercial mortgage obligations (CMOs) in the portfolio. Highly volatile instruments, such as inverse floating, interest only derivatives are prohibited unless their use is specifically described in their fund prospectus or manager agreement disclosures and approved by the Committee.

• The custodian bank is prohibited from using instruments which are not deemed to be appropriate by the Securities Exchange Commission (SEC) for use in money market funds. Floating rate instruments that do not approximate par at reset would be an example of such a prohibited instrument. Additionally, inverse floating and other highly volatile instruments are prohibited.

E. Other Restrictions

An Investment Manager may not:

• Acquire any security, other than by gift, subject to any restriction on the sale thereof; or, subject to any investment representation unless specifically approved by the Committee;
• Knowingly sell any security not owned by the Endowment