

**HSU ADVANCEMENT FOUNDATION
INVESTMENT POLICY FOR THE
HYDROGEN DEMONSTRATION NON-ENDOWED ASSETS
APPROVED AT AUGUST 27, 2008 BOARD MEETING
(REPLACES AND SUPERSEDES POLICY APPROVED MAY 28, 2008)**

I. POLICY STATEMENT

This Investment Policy is intended to provide guidelines for the prudent investment of the Hydrogen Demonstration non-endowed asset portfolio (“Hydrogen Assets”) within the Humboldt State University Advancement Foundation (the “Foundation”).

II. INVESTMENT OBJECTIVE

The purpose of this policy is to establish a framework for the investment of the Hydrogen Assets. This policy will establish appropriate risk and return objectives in light of the risk tolerance and investment time horizon for the Hydrogen Assets. Asset allocation guidelines and suitable investments shall be established for the Hydrogen Assets consistent with the policy.

The portfolio’s total return target should be equal to a weighted strategic benchmark created by weighting appropriate indexes (i.e.: 90 day Treasury, Merrill Lynch 1-3 Year Treasury, Lehman Bros. Aggregate, S&P 500, etc.) according to the portfolio’s actual asset class weighting at the beginning of each month.

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

III. SPENDING POLICY

The amount withdrawn in each fiscal year will be targeted at 4.5 percent or less of the Hydrogen Assets’ average total market value during the 12 quarters ending with the last quarter of the previous calendar year. Under circumstances deemed appropriate by the Finance Committee, the amount withdrawn may exceed the 4.5 percent target described in this paragraph.

IV. RESPONSIBILITIES

The following parties associated with the Foundation shall discharge their respective responsibilities in accordance with all applicable fiduciary standards as follows: (1) in the sole interest of the Foundation’s contributions and beneficiaries; (2) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an

enterprise of a like character and of like aims; and (3) by diversifying the investments so as to minimize the risk of large losses.

- A. Board of Directors: The members of the Board of Directors are the fiduciaries of the Foundation and are ultimately responsible for the investments of the Foundation.
- B. Finance Committee: The members of the Finance Committee have been delegated authority by the Board of Directors to provide oversight to management of the day-to-day administrative issues associated with the Foundation's assets. They have recommendatory authority to the Board of Directors with respect to the implementation of this Investment Policy and shall make detailed reports to the Board of Directors regarding the status of the Foundation's investments.

Specific responsibilities include the following:

1. Recommend investment goals and objectives for approval by the Board of Directors.
 2. Establish and, when deemed necessary, recommend modifications to the Investment Policy.
 3. Select and terminate professional investment managers as appropriate.
 4. Negotiate and/or monitoring Foundation investment expenses.
 5. Monitor and evaluate investment performance on a quarterly and ongoing basis.
 6. Assure proper custody of the investments.
 7. Report to the Board of Directors, at least annually, regarding the Foundation's investment results, its composition and other information the Board of Directors may request.
 8. To assist in this process, the Finance Committee may retain an investment consultant.
- C. Investment Consultant: When appropriate, an investment consultant will be charged with the responsibility of advising the Finance Committee on investment policy, spending policy, asset allocation, manager structure, investment manager selection, performance analysis and monitoring and education.
 - D. Investment Manager(s): When appropriate, investment manager(s) is (are) delegated the responsibility of investing and managing the Foundation's assets in accordance with this Investment Policy and all applicable law. Each investment manager must either be (1) registered under the Investment Company Act of 1940, (2) registered under the Investment Advisors Act of 1940, (3) a bank, as defined in that Act, (4) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the Foundation's assets, or, (5) such other person or organization authorized by applicable law or regulation to function as an investment manager.

V. PRUDENCE, ETHICS AND CONFLICT OF INTEREST

All participants in the investment process shall act responsibly. The standard of prudence to be applied by the Committee, staff, and external service providers shall be the “prudent investor” rule, which in part, states: “A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. A trustee’s investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.”

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

VI. INVESTMENT MANAGEMENT – ASSET CLASS GUIDELINES

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

A. Equity Investments:

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

1. Allowed investments include publicly traded common stocks, preferred stocks, stock warrants and rights, convertible bonds, securities issued by non-U. S. companies traded on U. S. exchanges, as well as REITs (real estate investment trusts) and any other investments as allowed by respective prospectuses.
2. Equity securities shall be diversified in number so that no one commitment to any company shall exceed 5% of the value of the Foundation’s equity

portfolio based on cost at the time of acquisition or 7% at market value of the equity portfolio.

3. The Foundation shall not hold more than 5% of the equity securities, or those securities convertible into equity securities, of a single issuer.

B. Fixed Income Investments:

The overall investment objective of the fixed income portion is to provide (above average) top quartile long-term total return relative to the fixed income market and to the returns of other fixed income funds through traditional fixed income management techniques. The fixed income portion shall be invested under the following guidelines:

1. Allowed investments include corporate and government bonds, asset-backed securities and any other fixed income investments as allowed by respective prospectuses.
2. Average credit quality shall be A or better.
3. With the exception of U. S. Government and Agency issues, no more than 10% of the bond portfolio at market will be invested in the securities of a single issuer or 5% of the individual issue.
4. There shall be a maximum limitation on below-investment-grade bonds of 10% of the bond portfolio.
5. There shall be a maximum limitation on non-U. S. bonds of 30% of the bond portfolio.

C. Short Term Investments:

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

D. Alternative Investments:

Alternative investments are non-traditional investments that have low correlation with most traditional asset classes. Only alternative investments available via a mutual fund will be considered for the Hydrogen Assets. The Committee recognizes that additional investment classes may reduce the Foundation's investment performance volatility and/or enhance overall performance. It is the

intent of the Committee to place a portion of assets specified in SCHEDULE I in investment categories such as:

- Absolute Return Strategies
- All Asset Strategies (TAA)
- Private Equity

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

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

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

VII. INVESTMENT MANAGEMENT – GENERAL GUIDELINES

- A. Proxy Voting: The investment manager(s) shall have the sole and exclusive right to vote any and all proxies solicited in connection with the securities held by the Foundation. The investment manager(s) shall furnish the Finance Committee with a written proxy voting policy statement, and shall keep records with respect to its voting decisions and submit a report annually to the Finance Committee summarizing votes cast.
- B. Trading and Execution: The investment manager(s) shall use their best efforts to obtain execution of orders through responsible brokerage firms at the most favorable prices and competitive commission rates.

C. Investment Performance Review and Evaluation:

1. The Finance Committee will review the investment results of the investment manager(s) at least quarterly. Performance comparisons will be made against a representative performance universe and the performance objectives set forth in this policy statement. A comprehensive annual report from the Finance Committee will be presented to the full Board of Directors.
2. The Finance Committee, with the assistance of the investment consultant, shall periodically review the qualitative developments of each investment manager. This evaluation should include: changes in ownership, personnel turnover, adherence to investment style and philosophy, and any other qualities that the Finance Committee deems appropriate. This review should also include an assessment as to whether each investment manager has operated within the scope of this Investment Policy.
3. The investment manager(s) must disclose all major changes in organization or investment philosophy to the Finance Committee members within 30 days. Further, all registered investment advisors must present updated ADV-2 forms on an annual basis to the Finance Committee.
4. It is expected that professional management responsible for these funds shall report not less than quarterly on the performance of the portfolio, including comparative gross returns for the funds and their respective benchmarks, as well as a complete accounting of all transactions involving the Foundation's investments during the quarter, together with a statement of beginning balance, fees, capital appreciation, income and ending balance for each account.

Professional investment management is encouraged to report routinely to the ED, and the Finance Committee. Additional meetings with the Finance Committee or the Board may be requested.

D. Corrective Action:

Corrective action should be taken naturally as a result of the ongoing review process of investment managers. While there may be unusual occurrences at any time, the following are instances where corrective action may be in order:

1. Any organizational change that may materially affect the management process will be noted by the investment management and discussed with the Finance Committee. If the Finance Committee deems appropriate, the investment manager may be called upon to discuss changes.
2. Violation of terms of contract without prior approval for the Finance Committee constitutes grounds for termination.

3. As part of its overall asset allocation strategy, the Finance Committee will select managers with certain styles and approaches to portfolio diversification. Therefore, it is critical that managers adhere to the original intent of the Finance Committee. Should either the consultant or staff ascertain that significant changes in investment style have occurred, this may be grounds for termination.
4. Managers may be replaced at any time as part of an overall restructuring.

E. Policy Changes:

The investment consultant shall advise the ED and/or the Finance Committee of any restrictions within this Investment Policy that may prevent the investment manager(s) from obtaining the objectives and goals set forth herein. Any violation of the investment guidelines or other sections of the Investment Policy discovered by the investment consultant in the preparation of its regular performance review shall be reported immediately to the Finance Committee and discussed at their next regularly scheduled meeting.

F. Investment Policy Review and Revisions:

The Board of Directors reserves the right to amend the Investment Policy at any time they deem such amendment to be necessary, or to comply with changes in federal law as these changes affect the investment of the Foundation's assets.

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

VIII. SOCIALLY RESPONSIBLE INVESTING

The Board of Trustees of the California State University adopted a resolution urging auxiliary boards, which make corporate investments to issue statements of social responsibility and to follow those precepts in examining past and considering future investment policies. The Foundation Board of Directors recognizes and accepts its social responsibility with respect to the investment of funds.

SCHEDULE I

Allocation of Assets

The target asset allocation for the Hydrogen Assets is determined by the Committee to facilitate the achievement of the Hydrogen Demonstration investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance, the Hydrogen Assets shall be divided into the following asset classes:

Asset Class	Minimum Percent	Target Percent	Maximum Percent
Large Cap U.S. Equities	15%	25%	35%
Small Cap U.S. Equities	5%	11%	20%
Non-US Equities	10%	19%	25%
Fixed Income	15%	25%	40%
Cash & Equivalents	0%	0%	3%
REITs	0%	10%	15%
Absolute Return*	0%	0%	0%
All Asset Strategies	0%	10%	15%
Private Equity*	0%	0%	0%

*Absolute Return and Private Equity are being evaluated by the Committee to determine whether any of these asset classes are appropriate for a target allocation.

Up to the total amount of the Hydrogen Assets approved spending and fees for the next three years may be held in low duration fixed income investments to reduce the expected volatility of these assets prior to distribution. Any such low duration fixed income investments will be excluded from the target allocations described in the table above and will be subject to the same investment management guidelines detailed in this Investment Policy for fixed income investments.

Liquidity:

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

Rebalancing

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

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

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

EXHIBIT A

Performance Monitoring Return Expectations

Performance measurement shall be based on total rate of return and shall be monitored over a sufficient time period to reflect the investment expertise of the investment manager(s) over one full market cycle, or five years, whichever is less.

Total Portfolio

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

1. Exceed the return (net of fees) of a weighted benchmark created by weighting appropriate indexes (i.e.: 90 day Treasury, Merrill Lynch 1-3 Year Treasury, Lehman Bros. Aggregate, S&P 500, etc.) according to the portfolio's actual asset class weighting at the beginning of each month.

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

U.S. Equities - Large Capitalization

Large capitalization U.S. equity represents investments made in companies within the United States, with capitalization of greater than \$8 billion. The capitalization of a company is calculated by multiplying the number of shares outstanding by the price per share. Large capitalization U.S. equity accounts will be evaluated quarterly. Specific performance objectives for actively managed funds include, but may not be limited to, the following:

1. Exceed the return of the S&P 500 Index by one percentage point (1%) annually net of fees over a market cycle, or five years, whichever is less.
2. Exceed the return of the appropriate style benchmark by one percentage point (1%) annually net of fees over a market cycle, or five years, whichever is less.
3. Rank in the top quartile of a nationally recognized universe of equity managers possessing a similar style.

U.S. Equities - Small Capitalization

Small capitalization U.S. equity represents investments made in companies within the United States, with capitalizations of less than \$2 billion. The capitalization of a company is calculated by multiplying the number of shares outstanding by the price per share. Small capitalization U.S. equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the Russell 2000 by one percentage point (1%) annually net of fees over a market cycle or five years, whichever is less.
2. Exceed the return of the appropriate style benchmark by one percentage point (1%) annually net of fees over a market cycle, or five years, whichever is less.
3. Rank in the top quartile of a nationally recognized universe of equity managers possessing a similar style.

Non-U.S. Equities

Non-U.S. equity represents investments made in companies headquartered and traded on stock exchanges outside of the United States. Non-U.S. equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the Return of the MSCI EAFE Index by one percentage point (1%) annually net of fees over a market cycle or five years, whichever is less.
2. Rank in the top quartile of a nationally recognized universe of international equity managers possessing a similar style.

Fixed Income

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

1. Exceed the Return of the Lehman Aggregate Index by one-half of a percentage point (1/2%) annually net of fees over a market cycle, or five years, whichever is less.
2. Rank in the top quartile of a nationally recognized universe of fixed income managers possessing a similar style.

Real Estate Investment Trusts (REITs)

A REIT is a corporation or business trust that invests in real estate, mortgages or real estate-related securities. Exposure to REITs may be obtained through mutual funds. REIT managers will be evaluated quarterly. Specific performance objectives for active managers include, but may not be limited to, the following:

1. Exceed the return on the NAREIT by at least one-half percent (1/2%) annually net of fees;
2. Exceed the increase in the C.P.I. by at least four percent (4%) annually net of fees.

Index funds are expected to match the return of the underlying benchmark gross of fees over a market cycle, or five years, whichever is less.

Absolute Return

Absolute return represents a type of hedge fund of funds that uses different strategies, such as short selling and hedge equities to seek positive returns, regardless of market direction. The rewards of hedge fund managers are usually heavily geared towards the performance of their funds. A fund of funds is when managers invest in a group of single manager hedge funds or managed accounts, which may utilize a variety of investing strategies, creating a diversified investment vehicle for its investors. Absolute return managers will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the HFRI Fund of Funds Index by at least one percent (1%) annually net of fees over a market cycle, or five years, whichever is less.
2. Exceed the increase in CPI by at least six percent (6%) annually net of fees.

All Asset Strategies (TAA)

All asset strategies, also called real return strategies, target a return that exceeds inflation by a premium (ex. CPI + 5%). All asset managers typically invest in a core of “real” return assets, such as TIPS, commodities, and real estate, as well as traditional asset classes such as equity and fixed income. Additionally, managers attempt to add value by tactically allocating to asset classes they perceive to be undervalued, thus contributing to the “real” return orientation. All asset strategy managers will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the increase in the C.P.I. by at least five percent (5%) annually net of fees.

Private Equity

Private equity represents investments in Venture Capital, Buyouts, Mezzanine, and Distressed Debt. Typically Private Equity is accessed through a fund of funds approach. A fund of funds is when managers invest in a group of funds or managed accounts, each of which creates funds of managers employing different strategies, thus creating a diversified investment vehicle for its investors. Private equity managers will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the increase in the S&P 500 Index by at least five percent (5%) annually net of fees;
2. Exceed the Venture Economics Private Equity median return for the appropriate vintage year.