INTRODUCTION

This Statement of Investment Policies and Objectives is issued by the Board of Trustees of Chapman University to articulate the investment policies which govern the management of the Endowment Funds (“the Endowment”).

The purpose of this Statement is to provide a basis for discussion and decision making by the Board of Trustees, the Investment Committee, and the external investment managers for the Endowment. This Statement will be reviewed periodically by the Investment Committee, and modified as conditions warrant. Both the Investment Committee and its investment consultant(s) are expected to propose revisions in the guidelines at any time the existing guidelines would impede meeting the Endowment’s investment objectives.

The Investment Committee is empowered by the Board of Trustees to establish investment objectives, policies, and guidelines, select the appropriate types of assets and managers, and to review and evaluate, on a regular basis, the performance of the investment funds. The Investment Committee is charged to oversee the effective and prudent management of the assets of the Endowment for the benefit of Chapman University, guided by this policy statement.

The responsibility for ensuring the implementation of the policy and guidelines set forth in this Statement is delegated by the Board of Trustees to the Investment Committee.

FINANCIAL OBJECTIVES

The primary financial objective of the Endowment is to provide funds for the ongoing support of the operations of Chapman University while providing for safety of principal through diversification of investments. Over the long term, this means providing a stream of relatively predictable, stable, and constant funding in support of annual budgetary needs, and preserving and enhancing the Endowment’s real (inflation-adjusted) purchasing power net of management expenses and spending.

INVESTMENT OBJECTIVES

The primary long-term investment objective of the Endowment is to attain an average annual real total return (net of investment management fees) of at least 6% over the long term (a minimum five-year period). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index. It is recognized that the real return objective may be difficult to attain in every five-year period but should be attainable over a longer term, ten to twenty-year or greater time period. The Investment Committee strives to achieve these objectives within acceptable risk levels defined by this Statement.

Adopted: November 23, 2009
In addition to the absolute investment objective, the Endowment is expected to earn annualized returns in excess of the policy portfolio’s blended customized benchmark (defined in the appendix) as selected by the Investment Committee, measured over a minimum five-year period.

Peer group comparisons may periodically be made, but are secondary to the above objectives.

**ENDOWMENT SPENDING POLICY**

The Endowment is managed according to the “total return” concept, which envisions the sources of Endowment spending as being from interest, dividends, and realized capital gains, supplemented by recent donations and campaign gifts.

Chapman University uses a moving-average of market values to calculate its annual draw from the Endowment. Currently, Chapman University targets spending at 4.5% of the moving average of the Endowment’s market value based on the previous 20 quarter-end portfolio market valuations.

The Spending Policy is reviewed periodically by Chapman University’s Investment Committee to determine whether the spending formula should be adjusted and whether Chapman University’s current policy objectives are being met.

**PORTFOLIO ASSET ALLOCATION POLICY**

The asset allocation policy should reflect a proper balance of Chapman University’s investment objectives, risk tolerance and need for liquidity, and is subject to periodic change reflecting the Investment Committee’s view of capital market conditions. The Investment Committee understands, based on historical returns, that a high allocation to equity-oriented asset classes is required to deliver sufficient returns to support real spending while preserving the long-term purchasing power of the assets. A commitment to such asset classes may result in higher short-term volatility and may result in periods of diminished purchasing power. However, the Investment Committee aims to mitigate potential portfolio volatility by diversifying and allocating funds to asset classes whose returns are less correlated over time.

The Endowment’s investments shall be diversified by asset class (e.g., equities, bonds, alternative assets—both marketable and non-marketable—natural resources, and real estate) and within asset classes (e.g., within equities by economic sector, industry, quality, and size) as well as by manager. The purpose of diversification is to provide reasonable assurance that no manager, asset class, or individual holding could have a disproportionate negative impact on the Endowment’s aggregate results.

To achieve its long-term investment objective, the Endowment’s assets are invested primarily in asset classes as defined below, and include asset classes to hedge against deflation and inflation. The goal is for investment returns for any asset class to exceed the rate of return of its specified benchmark index, and for the return of the overall portfolio to exceed the custom Portfolio Benchmark. The target asset allocation, tactical range, and relevant indices may be found in the attached appendix. Issues to note include:

- The overall asset allocation between these asset classes remains under the regular scrutiny of the Investment Committee.
• Decisions as to individual security selection, position size and quality, number of industries or holdings, current income levels, turnover, and the use of options, financial futures, or derivatives (subject to restrictions articulated in this Statement of Investment Policies and Objectives) are left to broad manager discretion, subject to the usual standards of fiduciary prudence.

• The purpose of equity-oriented asset classes is to provide appreciation of total portfolio principal value sufficient to support any future spending requirements, while at the same time potentially increasing the purchasing power of Chapman University’s assets. It is recognized that pursuit of this objective could entail the assumption of significant price variability. The non-fixed income portfolio will be invested in U.S. and non-U.S. public equities, real assets (such as commodities, natural resources, and real estate), and in alternative assets, broadly defined to include equity hedge and absolute return strategies, private equity and venture capital.

• The primary purposes of alternative assets are (1) to provide risk reduction through investment in assets with lower correlations with the equity markets, such as absolute return strategies or hedged equities; and (2) to provide the potential for higher returns through investment in private equity (i.e., venture capital and buyouts). Alternative assets in general should be viewed as an equity substitute. The Investment Committee will review the allocation to alternative assets periodically to ensure that these investments do not add undue risk at the portfolio level and do not affect Chapman University’s need for liquidity.

• The purpose of real assets (e.g., investments in hard assets such as real estate, oil and gas, natural resources, commodities, inflation-indexed bonds) is to act as an inflation hedge to protect against the risk of unanticipated severe inflation and to generate an attractive overall return. The percentage of total Endowment assets allocated to real assets at any point in time should be sufficient to ensure that the real value of the total Endowment is protected from an extended period of inflation and is diversified among different strategies.

• The primary purpose of fixed income securities is to provide a hedge against the effects of a prolonged economic contraction and deflation; the secondary purpose is to contribute to overall return and to reduce the overall volatility of the total Endowment’s returns.

• The long-term policy allocation to cash should be zero, but this does not preclude Chapman University from maintaining a cash reserve for operational spending or pending subsequent investment.

Guidelines for Marketable Equity Managers

The equity-oriented investments will be broadly diversified according to economic sector, industry, number of holdings, and other investment characteristics. It is recognized, however, that in order to achieve its investment objective, the equity portfolio will comprise elements of both active and passive investment management. Diversification will be achieved at the total equity portfolio level, and not necessarily at the individual portfolio level. To enhance overall diversification, equity managers are selected to employ different equity management strategies which together achieve the desired degree of diversification.

The investment objective for each subclass of the total equity allocation is to outperform its corresponding index (net of fees). To ensure that this objective is met, the performance of each equity manager is expected to exceed both the specified index in Appendix 1 and the median return of an appropriate equity manager peer group.
Adopted: November 23, 2009

Guidelines for Fixed Income Managers

In addition to bonds, the fixed income portfolio may include investments in money market instruments, but may not include equities and convertible bonds that are essentially equity securities.

Non-dollar-denominated fixed income securities, high-yield securities, mortgage-backed and other securitized instruments are permissible as a part of an opportunistic total return strategy, and may be deployed on a tactical basis.

The investment objective for each subclass of the fixed income allocation is to outperform (net of fees) its corresponding index. To ensure that this objective is met, the performance of each fixed income manager is expected to exceed both the specified index in Appendix 1 and the median return of an appropriate fixed income manager peer group.

Guidelines for Alternative Asset Strategies

The investment objectives for investments in alternative assets are to diversify the market exposure of the Endowment, lowering volatility and achieving equity-like returns with lower correlation with equity markets. These might include managers or partnerships investing in marketable alternative strategies (e.g., arbitrage, long/short equity, and distressed securities), private equity, venture capital, real assets, natural resources, commodities, or other asset classes with a low correlation to traditional equity and fixed income asset classes. These investments will not generally fall within the guidelines established for the more traditional asset classes. The performance of each alternative assets manager is expected to exceed both the specified index in Appendix 1 and the median return of an appropriate manager peer group.

Marketable alternative strategies are defined as strategies investing primarily in marketable securities through a partnership or offshore investment company structure not subject to SEC registration and generally subject to a performance fee. Use of leverage, short selling and/or derivatives may be employed as part of the investment approach. The Endowment will avoid unnecessarily leveraged strategies and managers who provide transparency of their actions insufficient for adequate risk monitoring. Asset classes that could be considered marketable alternatives include: market neutral, equity long-short, distressed, high yield and arbitrage.

In order to meet the overall objectives of low correlation and low volatility relative to the equity investments and because of the high reliance on manager skill, the Endowment will diversify by strategy and manager. Rebalancing of allocations will be undertaken regularly to ensure proper diversification is maintained.

Non-marketable alternative assets, such as venture capital and buyouts, may be used in the Endowment to enhance returns. The long-term nature of the Endowment provides Chapman University with a competitive advantage for investing in illiquid asset classes and, thus, should allow the Endowment to reap the higher expected returns from such asset classes. The primary goal of the non-marketable portfolio is to invest with a select number of the highest quality managers. Diversification is of secondary consideration.

Appropriate Cash Equivalent Investments

Long equity and fixed income managers may invest in cash equivalent vehicles as a means for the temporary (i.e., less than one year) deployment of funds. Cash equivalent investments are defined as U.S. dollar-denominated fixed income instruments with maturities of one year or less. Chapman University
expects its managers to use prudence in investing cash in only the highest quality instruments available through financial institutions in the highest two rating categories of nationally recognized rating agencies.

**INVESTMENT MANAGEMENT STRUCTURE**

The Endowment will be managed by external investment managers in a multi-manager structure. In the interest of diversification, the equity portion of the portfolio will be placed with managers who have distinct and different investment philosophies. Each investment manager has complete discretion to manage the assets in its portfolio to best achieve the investment objectives and requirements within the guidelines set forth in this policy statement and any manager specific guidelines adopted by the Investment Committee.

Each manager is measured and relative success determined against the specific and appropriate benchmark suitable for the manager’s style and risk exposure.

The Investment Committee will choose and monitor the investment managers for the Endowment, with guidance from the Investment Consultant. The Investment Committee will report to the Board of Trustees on a regular basis concerning performance of the Endowment and its investment managers.

**IMPLEMENTATION PROVISIONS**

**Permissible Investments**

For separately managed accounts of the Endowment, individual manager guidelines that govern permissible securities and dictate other expectations apply. Where investments are made in commingled or mutual funds, the permissible investments are governed by the appropriate fund prospectus.

**Derivatives**

Managers using derivatives must have in place systems to rigorously analyze and monitor associated risk.

**Guidelines for Transactions**

As a general guideline, transactions in individual securities should be entered into on the basis of best execution, which is interpreted normally to mean best-realized price. Notwithstanding the above, commissions may be designated for payment of services rendered to the Endowment in connection with investment management.

The Chief Operating Officer ("COO") is responsible for initiating instructions on contributions to and withdrawals from the investment managers. In doing so, the COO will work in conjunction with and follow all guidelines established by the Investment Committee.

**Proxy Voting**

All proxies are to be voted in the best interest of Chapman University in a manner consistent with the objectives contained herein. Proxies should be voted for proposals which enhance shareholder economic value, maintain or improve shareholder rights, are not dilutive and provide reasonable accountability for management, subject to applicable legal requirements.
To the extent that Chapman University invests in pooled or commingled funds, Chapman University assents to the proxy voting guidelines adopted by the managers of these funds which will be taken into account in the Endowment’s decision to invest (and remain invested) in such pooled fund.

**Reporting**

Managers will supply Chapman University with monthly reports on market valuations, performance and indications of compliance with investment guidelines.

Each investment manager will report performance results quarterly and on a 12-month basis as of December 31 each year, including multiple-year and since-inception annualized performance.

The Endowment will be reviewed by the Investment Committee on a regular basis, but results will be evaluated over multiple time periods.

**PERFORMANCE MONITORING**

For purposes of performance measurement, the returns of the Endowment will be measured against a custom benchmark composed of indices that serve as reasonable proxies for the asset classes contained in the policy portfolio. The performance of individual managers within the asset classes may be measured against more specific style or sector indexes as appropriate. The total Endowment is expected to outperform the blended benchmark over periods of five years or more. These benchmarks are specified in the appendix.

- All objectives and policies are in effect until modified by the Investment Committee, who will review these at least annually for their continued pertinence.

- The Endowment portfolios will be monitored on a continuing basis for consistency in investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Portfolios will be reviewed by the Investment Committee on a regular basis, but results will be evaluated over multiple time periods. The Investment Committee will regularly review each manager in order to confirm that the factors underlying the performance expectations remain in place.

- Each investment manager will report the following information quarterly: total return net of all commissions and fees, additions and withdrawals from the account, current holdings at cost and market value, and purchases and sales for the quarter. Regular communication concerning investment strategy and outlook is expected.

- The Committee may request that the investment managers be present at periodic meetings to present their portfolios and results.

Additionally, managers are required to inform the Investment Committee as soon as practicable of any significant change in firm ownership, acquisitions of other investment managers, material changes to organizational structure, subpoenas received from the SEC or any other regulatory or law enforcement agency or official, notice of any material disciplinary proceedings against the manager instituted by any regulatory agency, departures of key professional personnel, changes of account structure (e.g., number, asset size and account minimums), or changes in the manager’s fundamental investment philosophy.
On an annual basis, each manager should provide the COO with a copy of its form ADV, Part I and Part II.

**CONFLICT OF INTEREST POLICY**

Trustees or any other individuals who serve on the Investment Committee or any sub-committee thereof (“Committee Members”) and administrative staff involved in investment oversight (“Staff”) are charged with the responsibility for decisions which in their judgment best serve the long-range interests and objectives of Chapman University. The Committee Members and Staff shall each receive, review, and agree to be bound by the terms and conditions of the Chapman University Board of Trustees Policy on Conflicts of Interest. The Policy on Conflicts of Interest is available from the office of the COO.

From time to time Committee Members and Staff may consider matters in which the Committee Members, Staff, and persons affiliated with them, or persons affiliated with Chapman University have a direct or indirect financial interest. In order to resolve any questions of conflict of interest, whether real or apparent:

- In addition to the disclosures under the Board of Trustees Policy on Conflicts of Interest, Committee Members and Staff shall disclose to the Investment Committee any relevant facts or circumstances that might give rise to a conflict of interest, or a perception of a conflict of interest, with respect to matters that come before the Investment Committee;

- Individuals so affected shall abstain from Investment Committee decisions relating to such matters. Abstentions shall be recorded in the minutes of the Committee.

**REBALANCING POLICY**

Rebalancing asset allocations to policy targets is useful for maintaining the risk/return profile chosen by the Investment Committee. The Endowment's actual asset allocation will be monitored regularly relative to established policy targets and ranges. Normal net cash flows will be applied to maintain actual asset allocations as close to policy targets as is practical. At times, markets may move such that normal cash flows may prove to be insufficient to maintain the actual allocation within the permissible ranges. In those cases, balances should be transferred as practicable between the asset classes to bring the allocations back to the policy target. The Investment Committee shall review asset allocation targets and the rebalancing policy annually.

In order to reap the benefits of diversification and maintain a relatively constant risk exposure, the portfolio will be rebalanced on a regular basis. To the extent possible, rebalancing should be accomplished on an ongoing basis through normal cash flows.

At least annually, the Endowment portfolio will be rebalanced to the target policy allocation in this statement and the results reported to the Investment Committee.

Asset classes in violation of the asset allocation ranges should be recorded in the Investment Committee minutes.

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*This Statement remains in effect unless modified by the Board of Trustees of Chapman University. The Statement will be reviewed periodically by the Investment Committee for its continued appropriateness. If any member of the Board of Trustees, Finance or Investment Committees, or Staff believes that an*
established policy or guideline inhibits the Endowment’s execution of investment strategy or investment performance, he must communicate this view to the COO or the Chair of the Investment Committee.
# APPENDIX 1

## ASSET ALLOCATION TARGETS, TACTICAL RANGES, and SPECIFIED BENCHMARKS

*(Effective June 15, 2009)*

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Permissible Range</th>
<th>Specified Indexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>25%</td>
<td>20% - 40%</td>
<td>S&amp;P 500 Index</td>
</tr>
<tr>
<td>Global ex-U.S. Equity</td>
<td>22%</td>
<td>15% - 40%</td>
<td></td>
</tr>
<tr>
<td>Developed Markets</td>
<td>14%</td>
<td>10% - 30%</td>
<td>MSCI EAFE Index</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>8%</td>
<td>0% - 10%</td>
<td>MSCI Emerging Markets Index</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>15%</td>
<td>10% - 20%</td>
<td>HFRI Fund of Funds Diversified Index</td>
</tr>
<tr>
<td>Private Equity/ Venture Capital</td>
<td>10%</td>
<td>0% - 15%</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>C</td>
</tr>
<tr>
<td>Real Assets</td>
<td>10%</td>
<td>5% - 20%</td>
<td>MSCI World Natural Resources Index</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>DJ AIG Commodity Total Return Index</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>18%</td>
<td>5% - 15%</td>
<td>BC Aggregate Bond Index</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>BC Government Bond Index</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>0% - 10%</td>
<td>Merrill Lynch 91-Day Treasury Bill</td>
</tr>
</tbody>
</table>

**CUSTOMIZED POLICY BENCHMARK:** 25% S&P 500 Index / 14% MSCI EAFE Index / 8% MSCI Emerging Markets Index / 15% HFRI Fund of Funds Diversified Index / 5% Cambridge Associates Venture Capital Mean / 5% Cambridge Associates Private Equity Mean / 10% Real Assets Benchmark (66.67% MSCI World Natural Resources Index / 33.33% DJ AIG Commodity Total Return Index) / 10% Fixed Income Benchmark (75% BC Aggregate Bond Index / 25% BC Government Bond Index)
APPENDIX 2

INVESTMENT COMMITTEE GUIDELINES

- Regularly scheduled meetings; adherence to an agenda; recording all votes via formal minutes; and use of appropriate procedures consistent with Chapman University’s other governance requirements.

- Annual review of asset allocation targets relative to Chapman University’s needs, program spending, the University’s tolerance for risk, capital market conditions, and other factors which may arise.

- An annual rebalancing discussion related to the asset allocation discussion above.

- The provisions of the Investment Policy Statement shall be reviewed periodically to ensure that they remain consistent with the objectives of the Board of Trustees with a formal review every other year.

- While asset allocation is the Committee’s core task, it is also responsible for the selection, retention, and termination of investment managers and consultants who help it implement its asset allocation policies. Accordingly, the Committee should maintain consistent standards in the evaluation of outside advisors. Among the attributes of investment managers and advisors considered desirable are:
  - Clarity and coherence of strategy and investment process
  - Stability of portfolio management team and ownership
  - Consistent style and adherence to stated strategy through market cycles
  - Adequate track record to assess performance
  - Ability to be benchmarked against a reputable index or other objective measurements
  - Fees, terms, and practices consistent with peer managers
  - Quantitative analytics (i.e., standard deviation, tracking error, drawdown, Sharpe Ratio, etc.) are within reasonable expectations for the asset class, peer managers or strategy

- Investment manager recommendations made by Committee members, or by other members of the community, shall be vetted by the investment consultant to ensure uniform and objective application of the preceding criteria and such other measures as the consultant deems proper.

- Unconventional or opportunistic investments (higher degrees of risk, less transparency, illiquidity or other issues) proposed for the portfolio should contribute to Chapman University’s long-term investment objectives. Such investments should be subject to added review and monitoring by the Committee to ensure consistency with “Prudent Investor” expectations.

- Committee members should be mindful of conflict of interest issues and heightened scrutiny thereof by the SEC and IRS. To protect Chapman University and maintain the fiduciary objectivity of the Committee, members should disclose any conflicts of interest as stipulated in the Investment Policy Statement.
APPENDIX 3

DELEGATION OF RESPONSIBILITIES

The Investment Committee is authorized by the Board of Trustees to delegate certain responsibilities to professional experts in various fields to assist it in properly meeting its overall responsibilities as outlined above. These include, but are not limited to:

**Investment Committee:**

- Establishment and periodic review of the investment objectives and policies.
- Determination and periodic review of asset allocation targets.
- Retention or dismissal of outside professionals (investment managers, consultants, and other professionals retained by the Investment Committee).
- Periodic reporting to the Board of Trustees on the asset allocation and performance of the Endowment, as well as any other substantive matters.
- Granting any necessary waivers from this Statement of Investment Policies and Objectives.

**Chief Operating Officer:**

- Oversight of operational aspects of the Endowment and the implementation of any changes approved by the Investment Committee.
- Periodic reporting to the Investment Committee and/or Board of Trustees.

**Investment Managers:**

- Selection of specific portfolio holdings in accordance with the Endowment's investment policy and manager-specific guidelines.
- Notifying the Chief Operating Officer as soon as practicable of (1) any guideline that impairs or prevents the achievement of performance objectives; (2) new developments or circumstances that warrant a change in the guidelines; (3) discovery of material malfeasance by any portfolio manager or senior rank employee associated with Chapman University’s relationship; (4) any disciplinary action by any regulatory authority or material non-compliance with any AIMR, SEC or other professional standards; (5) any significant change in investment strategy and/or portfolio structure; (6) a material change in portfolio managers, analysts, or ownership control of the manager; and (7) any material improvements to the system of internal controls that may be suggested by the manager’s auditors or regulatory authorities.

**Investment Consultant:**

- Periodic review of investment policy and objectives.
- Identification and participation in the selection and ongoing evaluation of investment managers.
- Measurement and evaluation of Endowment and investment manager performance.
- Ongoing monitoring of investment managers currently employed.
- Reporting on capital markets developments that have had or may have a material impact on Endowment performance.

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• Advising the Endowment with respect to asset allocation, asset classes, and capital markets.
• Facilitate due diligence in particular regarding alternative asset managers; participate in addressing independent external financial audit firm standards for the valuation of alternative asset investments
• Serve as a research resource for the Investment Committee.
APPENDIX 4

MANAGER GUIDELINES*

At the Committee’s discretion, additional guidelines can be developed for each investment manager addressing the following issues:

- Philosophy
- Number and range of holdings
- Limit on holdings
- Benchmark
- Performance Risk
- Use of cash
- Proxy voting
- Best execution
- Use of derivatives
- Reporting
- Guideline changes
- Standard of care statement

* To be appended for each manager