PEPPERDINE UNIVERSITY
ENDOWMENT FUND STATEMENT OF
INVESTMENT OBJECTIVES AND POLICIES

1. Introduction

The University's endowment serves as the permanent capital base in support of Pepperdine's mission as a "Christian University committed to the highest standards of academic excellence and Christian values, where students are strengthened for lives of purpose, service and leadership". Thus, the primary objective of the endowment's policy and management is to ensure the preservation of its inflation-adjusted purchasing power net of spending distributions, within the context of appropriate risk/reward and diversification principles of portfolio management. The Board of Regents has delegated oversight of the endowment and other investment funds to the Investment Committee. The Investment Committee's responsibilities include:

- Approving investment management policies, objectives and guidelines
- Monitoring endowment investment performance results
- Approving endowment spending rates annually
- Communicating appropriate financial matters to the Board of Regents

a. It is the general practice of the University to pool endowment resources. This statement sets out explicit policies for the pooled endowment but would apply to non-pooled holdings as well.

b. All objectives and policies will remain in effect until modified by the Investment Committee, which will review them at least annually.

2. Statement of Financial and Investment Objectives

a. The endowment will seek to maximize long-term total return consistent with prudent levels of risk. Investment returns are expected to preserve or enhance the real value of the endowment to provide adequate funds to sufficiently support designated University activities. The endowment's portfolio objective is to achieve a 5.5% real rate of return over an extended time horizon.

<u>Financial Objective</u>

Benchmark	CPI + 5.5%
Evaluation Period	Rolling Ten Years

b. The secondary long-term objective of the endowment is to outperform the endowment's peer group universe measured over rolling periods of ten years or complete market cycles. Studies have shown that over longer periods of time, the asset allocation decision drives 95% of investment returns. In recognition of this, the Committee will focus primarily on this responsibility. Management will seek to allocate assets to managers who will provide superior performance when compared both with managers of other educational endowments and with capital markets generally.

<u>Peer Group Objective</u>

Benchmark:	NACUBO median for endowments with assets of $500 million to $1.0 billion
Evaluation Period:	Rolling Ten Years

c. Finally, the total return of the University's investment portfolio would be evaluated periodically against the return of a Policy Portfolio Benchmark consisting of approved market benchmarks and appropriate benchmarks for non-traditional, alternative investments 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 Policy Portfolio Benchmark return over rolling five-year periods.

<u>Policy Portfolio Objective</u>

Target		Benchmark
25%	U.S. Stocks*	Wilshire 5000
10%	Non-U.S. Developed Market Stocks*	MSCI EAFE
10%	Emerging Markets Stocks*	MSCI Emerging Markets Free
15%	Absolute Return	0.6 (CPI + 6%) + 0.4 (Wilshire 5000)
10%	Real Assets	CPI + 5.5%
5%	Commodities	CPI + 5.5%
15%	Private Equity	Wilshire 5000 + 3%
10%	Fixed Income	Lehman Brothers Aggregate Bond Index
100%	Total	

Evaluation Period: Rolling Five Years

* Includes long/short strategies, not to exceed 25% of equity allocation

3. Endowment Spending Policy

Distributions from the endowment will be made in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of California. UPMIFA allows the institution to determine the prudent amount to be appropriated for expenditure from endowment funds within the restrictions of any gift agreements.

The Committee is responsible for setting the rate at which funds are released for current spending. The endowment's current spending policy is based on a target rate of 5.0% of a five-year moving average of the endowment's monthly market values.

If, in any given year, total return shall be less than the target annual distribution, accumulated realized gains may be utilized as a supplement. Management will monitor and report the level of accumulated realized gains annually and the amount, if any, used to supplement payout in any fiscal year.

4. Investment Policy

a. Endowment assets will be diversified among classes of assets so that an adequate rate of return can be realized without unnecessarily exposing the endowment to excessive risk of capital loss. Endowed assets shall be invested in accordance with the target percentage and allowable ranges for each asset class as shown in Exhibit A – Policy Asset Allocation (Policy Portfolio). These policy targets and ranges will be reviewed in depth at least every three years and may be changed by the Committee at its discretion.

b. The asset allocation target established by this investment policy represents a long-term objective. It is recognized that unanticipated, short-term market shifts or changes in economic conditions may cause the asset mix to temporarily vary from the policy target.

c. The asset allocation policy is predicated on a number of factors, including:

- Spending policy and real return objectives for the endowment
- Historical and forecasted capital market returns and risk characteristics
- Acceptable level of portfolio risk

Exhibit A
Endowment Pool A
<u>Asset Allocation Targets and Ranges</u>

Asset Category	Policy Targets	Policy Ranges	Passive Benchmark	Active Benchmark
Cash	0%	0%-10%	90-day T-Bills	--
Fixed Income	10%	5%-15%	100% Lehman Br Aggregate Bond Index	CA[1] Bond Manager Median
U.S. Equity*	25%	15%-40%	Wilshire 5000	CA U.S. Equity Manager Median
International Equity, Developed*	10%	5%-15%	MSCI EAFE	CA Non-U.S. Equity Manager Median
Emerging Markets Equity*	10%	5%-15%	MSCI Emerging Markets Free	CA Emerging Markets Manager Median
<u>Alternative Investments:</u>				
Private Equity	15%	10%-20%	Wilshire 5000 + 3%	CA Customized Private Equity Benchmark
Absolute Return	15%	10%-30%	60% - CPI + 6% 40% - Wilshire 5000	CA Hedge Fund of Fund Median
Real Estate	10%	5%-15%	CPI + 5.5%	50% WARESI[2] 50% CA RE[3] Funds
Commodities	5%	0%-10%	CPI + 5.5%	30% Wilshire 5000 Energy Stock 20% NCREIF[4] Timber 50% DJ-AIG[5] Commodity Index
TOTAL	**100%**			

* Includes long/short strategies, not to exceed 25% of equity allocation

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1 CA - Cambridge Associates
2 WARESI - Wilshire Associates Real Estate Securities Index
3 CA RE - Cambridge Associates Real Estate Funds
4 NCREIF - National Council of Real Estate Investment Fiduciaries
5 DJ-AIG - Dow Jones – American International Group Commodity Index

5. Delegation of Authority

a. The Investment Committee of the Board of Regents is responsible for the policy setting and ongoing oversight of Pepperdine University's investment assets. The Investment Committee approves policies and guidelines upon recommendation by Management; oversees the investment process to execute the established investment policies; approves and monitors the spending policy of the endowment; and approves and monitors the asset allocation of the endowment portfolio.

b. In order to enhance the competitiveness of the investment process, improve management and operational efficiency, and to define and concentrate accountability for performance, certain duties and responsibilities are delegated by the Investment Committee to Pepperdine's Chief Investment Officer and/or Treasurer, referred herein to as Management. Delegation of authority shall apply to:

- Administration
- Management
- Reporting
- Compliance
- Operations
- Investments

c. Proposed investments should conform to the following:
   1. The proposed investment must be part of an already approved asset class and within the approved asset allocation guidelines.
   2. Each proposed investment will be shared with the Committee for comment and a three business day window will be provided for feedback. Any feedback received shall be communicated immediately to the full Committee.
   3. If any Regent has a negative comment, the Committee reserves the right to table the proposed investment until the next meeting of the Committee.

d. This delegation of authority seeks to define the scope of responsibility of Pepperdine's Management to enhance operational efficiency and timeliness in decision making as well as establishing a framework for the evaluation of Management in the delegated tasks.

5.1 Investment Authority

The Investment Committee hereby delegates the following specific duties and responsibilities to Management:

a. **Tactical Asset Allocation**: Without limitations of timing, procedures, or vehicles utilized, decisions regarding tactical asset allocation within the ranges established in Exhibit A, including rebalancing portfolio weights to Policy Target Weights by market exposure or actively deviating from

Policy Weights as market conditions dictate, as long as any decisions do not violate established endowment investment policies.

b. **Risk Management**: All decisions regarding the design and operation of any risk management system to Pepperdine's Management.

c. **New Investment Vehicle and Manager Selection**: The authority to commit endowment funds to new relationships with internal and external investment managers or to new mandates with external investment managers already under existing relationships with Pepperdine, and the accompanying authority to negotiate and execute agency and partnership agreements as necessary. This applies solely to strategies or asset categories previously approved by the Investment Committee.

d. **Changing Allocations of Investment Funds Among Existing Internal and External Managers and Partnerships**: Subsequent to the first six months of the relationship with a new manager, the authority to increase investments or commitments to existing internal or external investment managers, and the accompanying authority to renegotiate existing agency and partnership agreements as necessary. Any increase or action taken must comply with permitted guidelines and must be reported at the Investment Committee's regularly scheduled meeting.

e. **Management and Partnership Monitoring and Termination**: All decisions regarding monitoring and termination of existing external investment managers.

f. **Internal Investment Management**: All decisions associated with the direct management of assets by investment staff.

g. **Management of External Investment Consultant and Custodian**: The authority to direct the work of any investment consultant assisting investment staff.

h. **Reporting**: All management decisions delegated to Management will be reported to the Investment Committee for monitoring.

i. **Management of Endowment Assets**: All other day to day management decisions necessary to perform Management's delegated tasks and authority under this Investment Policy.

5.2 Investment Vehicle and Manager Selection:

The process for new manager or partnership selection shall include the following steps:

1) Due diligence by investment staff, and in some cases by the investment consultant.
2) Preparation of a complete due diligence report that will be considered by Management.

3) An annual review of investment activity will be submitted to the Investment Committee to ensure compliance to endowment policy.

6. Rebalancing Policy

a. Subject to paragraph 5.1.a (Tactical Asset Allocation), Management will monitor the endowment's asset allocation relative to policy targets, and rebalance back to targets as needed to keep actual asset allocation at least within the prescribed ranges. However, it may not be possible to rebalance certain illiquid asset classes, such as Venture Capital, Private Equity, Real Estate and some hedge funds, except gradually over time. In these cases, Management will adjust the allocations of other liquid asset classes to maintain an appropriate exposure and risk level for the fund as a whole.

b. The purpose of rebalancing is to maintain the market exposure and risk/reward relationship implied by the Policy Portfolio. Futures and derivative products may be used to rebalance, or hedge investment risks.

7. Role of Asset Classes

a. The Policy Portfolio consists of asset classes defined by differences in their expected response to economic conditions, such as price inflation or changes in interest rates. These assets are combined in such a way to provide the highest expected return for a level of risk appropriate for the University's long-term objectives.

b. In addition to marketable, publicly traded equity and fixed income securities, the endowment may invest in alternative investments to reduce the volatility of the overall portfolio by taking advantage of strategies that tend to exhibit low and/or negative correlations to other investments in the endowment portfolio. Alternative investments will be diversified by country and region, manager, investment strategy, financing, stage, economic sector and vintage year as appropriate to mitigate risk. Alternative investment strategies include the following categories: 1) Real Estate and Commodities, 2) Absolute Return and 3) Private Equity.

c. Asset allocation is the primary determinant of the volatility of investment return. Management is responsible for measuring actual asset allocation at least monthly and for reporting the actual portfolio asset allocation to the Investment Committee at least quarterly. While specific asset allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Investment Committee. In the event that actual portfolio positions in asset categories or projected portfolio risk move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, Management will immediately report this situation to the Chairman of the Investment Committee and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the endowment asset values could warrant requesting approval of the Chairman for remedial action.

8. Asset Classes

Endowment assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

8.1 **U.S. Equities**: U.S. equities represent ownership in U.S. companies that are traded in public markets. U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. U.S. equities provide both current income and capital gains.

8.2 **Non-US Developed Market Equities**: Represent ownership in non-U.S. companies that are traded in public markets. The Non-U.S. Developed Markets include established common stocks, exchange traded funds, and derivatives based on common stock, including warrants, rights, options, and futures. Non-U.S. Developed Equities represent ownership in companies domiciled in developed economies included in the MSCI EAFE Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

8.3 **Emerging Markets Equity**: Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Free Index, with net dividends.

8.4 **Hedge Funds**: Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

a. **Directional Hedge Funds**: Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security selection skills by taking long and short positions in various securities. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internal commingled investment.

b. **Absolute Return Hedge Funds**: Absolute return hedge fund investments include arbitrage, event driven strategies and other relative value strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internal commingled investment fund.

8.5 **Private Capital**: Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

a. **Venture Capital**: Venture capital investments consist of investments in companies, both U.S. and non-U.S., that are in the early stages of development. Venture capital investments are held either through limited partnerships or as direct ownership interests.

b. **Private Equity**: Private equity investments consist of investments in the securities of businesses, both U.S. and non-U.S. Private equity investments are held either through limited partnerships or as direct ownership interests. The Private equity category also includes mezzanine, and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

8.6 **Inflation Linked**: Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include:

a. **Real Estate**: Real estate investments may be held either directly, through private partnerships and trusts or in securities publicly traded on a recognized stock exchange.

b. **Commodities**: Commodities include natural resource investments including oil and gas interests, timber, and other hard assets. These investments may be held through private partnerships, direct investments, derivative investments, exchange traded funds or in securities publicly traded on a recognized stock exchange (including master limited partnerships).

c. **TIPS**: TIPS are sovereign debt securities with a return linked to the local inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities.

8.7 **Fixed Income**: Fixed income investments include debt (whether U.S. or foreign) issued by governments, various government enterprises, and agencies and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as fixed income.

8.8 **Cash and Cash Equivalents**: Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

9. Performance Measurement

The investment performance of the endowment pool will be measured by the fund's custodian, an unaffiliated organization, with recognized expertise in this field. Reporting will be compared against the stated investment benchmarks of the endowment, as indicated in Exhibit A and reported to the Investment Committee at least quarterly.

10. Valuation of Assets

As of the close of business on the last business day of each month, the custodian will report the fair market value of all holdings in the endowment based on the books and records of the custodian for the valuation date. The final determination of net assets for a month end close shall normally be completed within ten business days but may take longer under certain circumstances for alternative assets.

11. Endowment Pool Accounting and Valuation of Assets

a. The market value of the endowment pool shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, or industry guidelines. Significant asset write-offs or write-downs shall be initiated and approved by the Chief Investment Officer, subject to review and sign-off by the Chief Financial Officer or designate. Any write-offs or write-downs shall be reported to the Investment Committee at the next quarterly meeting.

b. As of the close of business on the last business day of each month, net asset value (NAV) per unit of the endowment pool shall be based on the books and records of the custodian for the valuation date. The fair market value of the endowment's net assets shall include all related receivables and payables on the valuation date and the value of each unit thereof shall be its proportionate part of such net value.

c. Purchase of units may be made monthly at the net asset value per unit of the pool as of the most recent monthly valuation date.

12. Risk Management Statement

a. With safety of principal being a key objective of the endowment, the University's investments should be positioned to maximize returns within prudent levels of risk. Internal and external managers are expected to exercise their fiduciary responsibility for the safekeeping, oversight and management of University assets.

b. In order to achieve its long-term investment return objectives, the endowment will need to assume at least a moderate level of risk. However, Management and the Committee will mitigate the endowment's risk levels in the following ways:

    I. Establish and implement policies to ensure that the endowment's asset class exposures are diversified so that no one asset class has a disproportionate impact on the fund's total return.
    II. Establish and implement policies to ensure that asset class portfolios are diversified by market, sector and security exposures.

III. Diversify the fund's investment manager structure to mitigate the exposure of the endowment to any one portfolio manager or investment firm. Evaluate the qualifications of managers before they are hired and monitor managers after they are hired to ensure that the original qualifications remain in place.
IV. Establish custodial and accounting systems to ensure that the University's funds are kept safe and are accounted for properly.

c. The endowment's managers are required to exercise the highest level of fiduciary responsibility for the safekeeping and management of the University's assets.

13. Derivatives, Short Selling and Options

a. Derivatives may be used to hedge investment risks or to replicate investment positions at a lower cost that would otherwise be created in the cash markets. However, derivatives may not be used to create net short positions, or to leverage a portfolio or increase its risk level above that of a similar portfolio that does not utilize derivatives without the prior approval of the Committee.

b. Outside of a specific long/short mandate, a portfolio overlay strategy, or within an approved absolute return strategy, the endowment's managers shall not sell securities short, buy securities on margin, borrow money or pledge assets, nor buy or sell uncovered options, commodities, or currencies. Management will monitor the fund's allocation to these managers and the execution of their strategies to ensure that no one such manager can have a disproportionate impact on the fund as a whole.

c. In addition, non-dollar-denominated transactions, currency futures, options, and forward transactions may be permitted, but solely in order to hedge the market value of the endowment's non-dollar-denominated securities into U.S. dollars.

14. Investment Managers

a. Several standards will be utilized in evaluating investment performance as opposed to a single measurement. These standards reflect several aspects of investment performance, including University objectives, the market indices, quantitative risk measures, and the performance of other fund managers. Other specific bases for performance evaluation are as follows:

I. Each manager is expected to exceed its respective passive standards or benchmarks over rolling three to five year periods.
II. Each manager is expected, after the first year of controlling the account, to perform in the top 50^{th} percentile of their peer groups as

measured by an acceptable professional performance management service. Investment performance shall be calculated using two methodologies:

- Time-Weighted Rate of Return (TWR) – the industry standard for calculating comparative performance of portfolios of publicly traded securities. This method allows the evaluation of investment management skill between any two time periods without regard to the total amount invested at any time during that period.
- Dollar-Weighted Internal Rate of Return (IRR) -the recommended measurement of performance for private equity investments. The IRR is the annualized return of a partnership's invested capital taking into account the timing and size of each investment, distribution and the value of remaining assets.

b. The endowment's composite return will be calculated on a weighted basis in proportion to the actual percentage of investments in each of the equivalent asset classes. Monitoring of the investment manager(s) performance will be conducted quarterly to include not only measurements with respect to the above standards, but an overall qualitative evaluation of the investment firm, portfolio management team and execution of the firm's stated investment strategy and investment performance relative to each Manager's mandate or stated performance benchmark(s) as set forth in the Manager's investment guidelines. Particular attention will be paid to changes in firm ownership or investment professionals, failure to achieve performance objectives specified in the Manager's guidelines, evidence of illegal or unethical behavior by the investment management firm or loss of confidence in the Manager. However, specific quantitative performance measures, especially the more absolute oriented measures, will be evaluated quarterly, but considered of more importance over a full market cycle or a three-to-five year period, whichever occurs first.

15. Reporting and Communications

a. Each investment manager will be provided with a copy of this statement of investment objectives and policies. The manager is expected to observe the specific limitations, guidelines, and philosophies stated herein or as expressed in any written amendments or instructions. The manager's acceptance of the responsibility of managing funds will constitute a ratification of this statement, affirming its belief that it is realistically capable of achieving the endowment's investment objectives within the guidelines and limitations stated herein. In addition, each investment manager shall:

    I. inform the University of major changes in the investment manager's investment outlook, investment strategy and portfolio structure;

II. advise the University of any significant changes in the ownership, organizational structure, financial condition or senior personnel staffing;
III. provide the University with quarterly transaction, valuation and performance reports;
IV. provide its valuation methodology and policy, as appropriate;
V. provide the University with proof of appropriate levels of liability and fiduciary insurance coverage;
VI. provide the University its proxy voting guidelines
VII. advise the University of any changes in the portfolio manager assigned to the account; and
VIII. inform the University of any other event or circumstance which might adversely affect the management of the account, including but not limited to any legal, regulatory or audit report, investigation or action.

b. If at any time any manager believes that certain policy guidelines inhibit investment performance, it is the manager's responsibility to communicate this view promptly to the University.

16. Guidelines for Transactions

Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best realized net price. Notwithstanding the above, commissions may be designated for payment of services that the University may request within a commission recapture or securities lending program.

17. Special Investment Approval and Management

a. Proposals for special investments shall be presented to Management, who is responsible for coordinating the investigation of each special investment. Approval of individual investments shall involve a three-step process.

I. Management shall conduct a thorough evaluation of specific investment proposals. Relevant information about the business or partnership, lead investor (if any), management, proposed terms, and expected returns shall be evaluated. Risk elements and exit strategies shall also be evaluated to the extent known.
II. Management will discuss investment proposals with the Chairman of the Investment Committee. If the Committee Chair evaluating the investment believes that it should be pursued, the proposal will be presented to the full Investment Committee.
III. The Chairman shall consult with other members of the Investment Committee to determine whether the investment decision is satisfactory

as to process and conclusion or if additional University input and review are appropriate.

b. The approval process is designed to ensure the adequacy of experienced input to the decision process, a timely response capability, and the sufficiency of information for the Investment Committee. For logistical reasons, any meeting or information exchange may occur in person or via telephone or other available means of communication.

18. Policy Regarding Related-Party Investments

a. It shall be the University's general policy not to invest in any privately held company, partnership, real estate or other private, illiquid investment vehicle in which a related-party is deemed to have a material financial interest. Exceptions to this general policy, though anticipated to be rare, may be made based on review and approval by the Investment Committee, and at least 2/3 approval at a duly constituted meeting of the Board of Regents in advance of the proposed investment.

b. Investments in publicly traded companies by external professional investment managers involving related parties that otherwise comply with the University's approved general investment guidelines are not prohibited under this policy, however these transactions would be subject to the appropriate Board reporting and approvals as required by University Bylaws Section 6.02.

c. Public company related-party investments made other than by approved professional investment managers shall be subject to a 2/3 approval vote at a duly constituted Board meeting in advance of the investment.

19. Definitions for Related-Party Investments

a. Investment - For purposes of this policy, investment shall be defined as a transaction in which University resources are placed at risk in anticipation of earning a monetary return.

b. Related Party - For purposes of this policy, related-party includes University officers, staff, faculty, Regents, and their immediate families. Immediate family shall include any spouse, child, grandchild, parent, grandparent, brother, sister, brother-in-law or sister-in-law.

c. Material Financial Interest - For purposes of this policy, material financial interest shall mean any position as owner, officer, board member, partner, employee, or other beneficiary.

20. Miscellaneous

a. RESTRICTED ENDOWMENT FUNDS
If the University accepts donor funds with specific restrictions as to investments, they shall fall outside the dictum of this policy and shall be administered by the University or its designees in accordance with donor specifications.

b. PROXY VOTING
As a shareholder, the University's endowment fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education and it's mission as a Christian university. Voting of proxies in stocks held by the endowment portfolio will be done in a manner that is in the best financial and economic interests of the fund. Investment managers are generally authorized to vote proxies on the University's behalf. In cases where the University desires to vote proxies related to specific proposals on corporate governance, executive compensation, and auditing and accounting issues, managers will be notified.

Pepperdine is committed to supporting businesses that uphold the highest standards of legal and ethical principles consistent with the University's mission statement, its Christian values and the good of society.

21. Amendment of Policy Statement

The Investment Committee reserves the right to amend this Policy Statement as it deems necessary or advisable.

22. Effective Date

The effective date of this policy shall be December 11, 2006.