



UNIVERSITY POLICY

BUSINESS AND FINANCE POLICIES

Number: 210
Subject: Endowment Investment Policy
Covered Individuals: UIU Employees
Covered Campus Locations: All
Effective Date: January 23, 2019
Date of Latest Revision:

PURPOSE

This statement of investment policy is set forth by the Upper Iowa University (University or UIU) Endowment in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DELEGATION OF AUTHORITY

The Finance Committee of UIU is a fiduciary, and is responsible for directing and monitoring the investment management of Fund assets. As such, the Finance Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Management Consultant. The consultant may assist the Finance Committee in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.

DEFINITIONS

- Fund:** The Endowment funds of the University.
- Finance Committee:** The committee representing the governing board of trustees to administer the Fund as specified by applicable policy.
- Fiduciary:** Any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
- Investment Manager:** Any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
- Investment Management Consultant:** Any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
- Securities:** The marketable investment securities which are defined as acceptable in this statement.
- Investment Horizon:** The time period over which the investment objectives, as set forth in this statement, are expected to be met. *The investment horizon for this Fund is 10+ years.*

ASSIGNMENT OF RESPONSIBILITY

- Responsibility of the Finance Committee**
 1. The oversight of the Portfolio.
 2. Defining the investment objectives and policies of the Portfolio.
 3. Directing Investment Consultant to make changes in investment policy and to oversee and to approve or disapprove Consultant's recommendations with regards to policy, guidelines, and objectives on a timely basis.
 4. Providing Consultant with all relevant information on UIU's financial conditions and risk tolerances and notifying Consultant promptly of any changes to this information.
 5. The Finance Committee will comply with the "prudent person standard of care" as stated in The Uniform Prudent Management of Institutional Funds Act (UPMIFA). 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.
- Responsibility of the Investment Consultant(s)**

The Investment Consultant's role is that of a non-discretionary advisor to the Finance Committee of UIU. Investment advice concerning the investment management of Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

 1. Assisting in the development and periodic review of investment policy.
 2. Conducting investment manager searches and recommending those managers as investment solutions to the Finance Committee.

3. Monitoring the performance of the Investment Manager(s) to provide the Finance Committee with the ability to determine the progress toward the investment objectives.
4. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
5. Communicating matters of policy, manager research, and manager performance to the Finance Committee.
6. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Finance Committee.

□ Responsibility of the Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Informing the Investment Consultant regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
3. Voting proxies, if requested by the Finance Committee, on behalf of the Fund, and communicating such voting records to the Finance Committee on a timely basis.
4. In addition to complying with the duty of loyalty imposed by law other than UPMIFA, each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

POLICY

□ General Investment Principles

1. Investments shall be made solely in the interest of the beneficiaries of the Fund.
2. The Fund shall be invested 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 investment of a fund of like character and with like aims. The Finance Committee will comply with the “prudent person standard of care” as stated in the UPMIFA, which directs directors or others responsible for managing and investing the funds of an institution to act as a prudent investor would, using a portfolio approach in making investments and considering the risk and return objectives of the fund.
3. Investment of the Fund shall be so diversified as to minimize risk, unless under the circumstances it is clearly prudent not to do so.
4. The Finance Committee may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.

5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

Goal of Endowment

The Finance Committee feels that future organizational/scholarship support is as important as current support. This is consistent with the philosophy that this Endowment is to exist in perpetuity, and therefore, should provide for operational support in perpetuity. ***To attain this goal, the overriding objective of this Endowment is to maintain purchasing power.*** That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the Endowment's investment horizon. The Endowment's specific investment objectives will be established later in this document.

Attitude Toward Gifts

Future giving (contributions) to this Endowment is expected to be relatively inconsistent, and therefore, unpredictable. As a result, the Finance Committee has set an investment strategy with the objective of maintaining purchasing power of Endowment assets exclusive of gifts. Therefore, expectations may be expressed by the following equation, while gifts will serve to increase real purchasing power:

Total Return = Net Spending + Inflation

Spending Policy

The Finance Committee will set a spending rate of 5% of the average year-end portfolio value for the trailing 3 years as of June 30th. This amount will be distributed annually based on the recommendation of the Finance Committee to the Board of Trustees of the University.

Investment Objectives

In order to meet its needs, the investment strategy of the Upper Iowa University Endowment is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management for Fund assets is ***moderate growth of capital with some focus on income.*** The secondary objective in the investment management of Fund assets is to ***provide sufficient liquidity to support scholarship needs of the University.***

Specific Investment Goals

Over the investment horizon established in this statement, it is the goal of the aggregate Fund assets ***to achieve an annual net return after fees and expenses of 7.5%.*** In order to measure aggregate investment results over periods shorter than the Fund's investment horizon, net investment results will also be measured relative to a blended market index corresponding to the Fund's long term strategic asset allocation target as follows:

70% MSCI ACWI, 25% Barclays Global Bond Index, and 5% 90 Day T-Bills

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment manager. The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Finance Committee that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Definition of Risk

The Finance Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the University Endowment assets understands how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and investment strategy as designed in this statement of investment policy. The Finance Committee defines risk as *the probability of not meeting the Fund's objectives*.

Liquidity

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Finance Committee will periodically provide the Investment Consultant with an estimate of expected net cash flow. The Finance Committee will notify the Investment Consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves. To maintain the ability to deal with unplanned cash requirements that might arise, the Finance Committee requires that up to 3% of Fund assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

Marketability of Assets

With the exception of investments in “Alternative Investments”, the Finance Committee requires that all Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

Investment Guidelines

1. Allowable Assets

- Cash Equivalents
 - Treasury Bills/Agency Discount Notes
 - Money Market Funds
 - Commercial Paper
 - Banker's Acceptances
 - Repurchase Agreements
 - Certificates of Deposit
- Fixed Income Securities
 - U.S. Government and Agency Securities
 - Corporate Notes and Bonds

- Mortgage Backed Bonds
- Preferred Stock
- Exchange Traded Funds (ETFs)
- Fixed Income Securities of Foreign Governments and Corporations
- Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMOs
- Equity Securities
 - Common Stocks
 - Convertible Notes and Bonds
 - Convertible Preferred Stocks
 - Exchange Traded Funds (ETFs)
 - American Depository Receipts (ADRs) of Non-U.S. Companies
 - Stocks of Non-U.S. Companies (Ordinary Shares)
 - Stocks of Real Estate Investment Trusts (REITS)
- Mutual Funds
 - Mutual Funds which invest in securities as allowed in this statement (which will include Open-End and Closed-End Funds)
- Other Assets
 - FLEX Strategy and Real Assets
 - Alternative Investments (including Hedge Funds, Managed Futures & Private Equity)

2. FLEX Strategy and Real Assets

▪ Definition

The committee recognizes that opportunities may exist by employing “unconstrained” managers that have a more flexible mandate than other specific asset class managers. This mandate would include buying domestic and international stocks and bonds as well as investing in commodities and cash. These managers are “unconstrained” in that they may quickly reallocate from stocks to bonds or cash within a short period on time. At the direction and guidance of the Investment Consultant, certain managers that successfully demonstrate this “flexible” approach may be hired to offer a more dynamic strategy to diversify and potentially enhance returns of this fund. Real assets would include real estate, commodities, natural resources and inflation linked securities. To maintain proper liquidity and transparency, these strategies will be implemented by the use of mutual funds that will have daily liquidity.

3. Non-Traditional/ Alternative Investment Strategies

▪ Definition

Non-Traditional /Alternative Investments are often structured as investments to achieve an absolute return strategy that has little or no correlation to the broad equity or fixed income markets. They often invest

in traditional assets such as equities and fixed income, but employ strategies to enhance their returns or to exploit market inefficiencies.

- **Objective**

Investment in non-traditional assets may be considered by this organization within the context of an overall investment plan. The objective of such investments will be to seek to diversify the portfolio, complementing traditional equity and fixed-income investments and improving the overall performance consistency of the portfolio. It is acknowledged that there is no guarantee that this objective will be realized.

- **Transparency and Liquidity**

It is acknowledged that these investments are typically less transparent than traditional investments and that liquidity in such investments is usually limited. It will be the policy of UIU, however, to pursue these strategies in the most efficient manner, considering all underlying structures of the investments, including but not limited to mutual funds and limited partnerships. To the extent that “illiquid” limited partnerships are utilized, the investments must allow for semiannual liquidity provisions.

- **Allowable Strategies**

Investment strategies may include, but are not limited to, the following:

Statistical Arbitrage	Real Estate
Momentum Trading	Equity Long/Short
Debt/Equity Financing	Global Macro
Leveraged Buyouts	Short Selling
Venture Capital	Commodities and Futures
Mezzanine Debt	Structured Credit Products
Equity Market Neutral	Special Situations
Convertible Arbitrage	Distressed Securities
Merger Arbitrage	

- **Allowable Investments**

The above-referenced strategies may include, but are not limited to, investments (directly or indirectly) in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short-selling and leverage.

- **Non-Traditional/Alternative Investments Guidelines**

Absent the requisite approval required for additional asset allocation to alternative investments, investments in this asset class are limited to 20%

of this fund's total portfolio assets.

▪ **Asset Allocation Guidelines**

Investment management of the assets of the University Endowment shall be in accordance with the following “strategic” asset allocation guidelines:

- Aggregate Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	30%	80%	65%
(Large Cap)	13%	35%	30%
(Mid Cap)	0%	15%	6%
(Small Cap)	0%	15%	6%
(International)	0%	30%	16%
(Emerging Markets)	0%	20%	8%
Fixed Income	10%	40%	25%
(Core Bonds)	5%	35%	22%
(High Yield Bonds)	0%	15%	5%
(International Bonds)	0%	20%	0%
Cash and Equivalents	0%	20%	1%
FLEX and Real Assets	0%	30%	4%
Alternative Investments	0%	20%	5%

- In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Investment Consultant will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines on a quarterly basis.
- In the event Morgan Stanley's Global Investment Committee recommends a tactical asset allocation shift, it is the responsibility of the Investment Consultant to notify the Finance Committee in a timely fashion and implement the recommended change as promptly and prudently as possible.

□ **Selection of Investment Managers**

The Finance Committee's selection of Investment Manager(s) must be based on prudent due diligence procedures provided by the Investment Consultant.

Investment Manager Performance Review and Evaluation

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results. Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Finance Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment

results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Finance Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.
4. For the Endowment's purposes, a full market cycle encompasses both a down leg and an up leg, in either order. The up or down portions each will be of at least two consecutive quarters in length, although the Finance Committee expects most market cycles to last from three to five years or longer. Shortfalls relative to the Fund's return targets may be tolerated over portions of the market cycle, provided that the return objectives are met over the Fund's time horizon.

▪ **Benchmark Indices**

<u>Asset Class</u>	<u>Benchmark Index</u>
Large Cap Growth	Russell 1000 Growth
Large Cap Value	Russell 1000 Value
Mid Cap Growth	Russell 2500 Growth
Mid Cap Value	Russell 2500 Value
Small Cap Growth	Russell 2000 Growth
Small Cap Value	Russell 2000 Value
International	MSCI EAFE Index
Emerging Markets	MSCI Emerging Markets Index
Core Bonds	Barclay's US Aggregate
High Yield Bonds	Barclay's High Yield Corporate Index
International Bonds	Citigroup Non-US Govt Bond Index
FLEX Portfolio	65% MSCI ACWI/ 30% Barclay's Global Agg/ 5% Gold
Hedge Funds	HFRI Fund of Funds
Managed Futures	S&P Diversified Trends Indicator

CONTACTS

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Finance Committee of the Board of Trustees plans to review investment policy at least annually. Acting as the Policy Owner for internal University purposes, the Vice President for Finance and Administration is responsible for answering questions regarding the application of this policy.

SANCTIONS

Intentional violations of any portion of this Policy may result in disciplinary action, up to and including termination of employment.

HISTORY

January 23, 2019 – Policy approved by Finance Committee of the Board of Trustees

February 21, 2019 – Policy approved by the Board of Trustees