

# The Stockton University Foundation Investment Policy

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Adopted: September 12, 2019

Covers: All board members, finance and investment committee members, and employees of the Foundation and/or of the University involved with the investing of Foundation funds.

## Purpose

To establish a set of guidelines to govern the investment of endowed funds as well as for cash not required in the daily operations of the Foundation. Additionally, it is the intent of the Board of Directors to comply with both 3B:20-11 known as the "Prudent Investors Act" and 15; 18-16 known as "Uniform Management of Institutional Funds Act".

## Introduction

The Investment Committee is a subcommittee of the Board of Directors of the Stockton University Foundation consisting of members including outside appointees that will provide a level of specialization, skill and experience. This committee's primary function is to craft and implement the investment policy, which serves as a roadmap to guide the foundation's investments. This committee is charged with the responsibility to review and analyze the results of the portfolio (s) against relevant benchmarks. Additionally, they will be charged with the responsibility of reviewing the Investment Manager (s) performance on a regular basis.

## Investment Oversight

The Investment Committee will provide summary performance results and status of the investment portfolio to the Board of Directors as requested, or at least quarterly. The Foundation/University finance staff and the Foundation Treasurer will monitor the Investment Manager(s) compliance with Foundation Investment policies and communicate any changes in policy to the Investment Manager(s). The Foundation staff will report to the Committee at its regularly scheduled meetings on the performance of the Investment Portfolio as whole and of each Investment Manager.

The portfolio(s), under the management of the Investment Manager(s), represent the assets of The Stockton University Foundation. Both the Board of Directors and the Investment Manager(s) recognize the fiduciary nature of the portfolio(s) and the important responsibilities associated with its management.

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The Investment Manager is responsible for maximizing investment return and growth of the Foundation's assets within the risk guidelines established. The Investment Manager(s) has full investment discretion over the security selection of the assets in the portfolio while ensuring that the assets are invested with care, skill, prudence, and diligence of a Prudent Investor.

## Objectives

The investments of the Foundation will be managed in accordance with the provisions outlined herein. The Long-Term Endowment Fund will be established and maintained as the primary investment vehicle which will hold all funds, with the exception of a short-term fund described below, in accordance with the Investment Objectives and Investment Guidelines contained within this Investment Policy Statement and more fully described below. A Short-Term Fund will be maintained to manage cash that will be distributed according to the Foundation's spending policy, currently distributed at a rate of four percent of the Long-Term Endowment Fund balance on an annual basis.

## Long-Term Endowment Fund

The overall financial goal of the Long-term Endowment Fund is to maintain or enhance its real (i.e. inflation-adjusted) market value while providing the Foundation with a relatively predictable and growing (in nominal terms) stream of revenue targeted at approximately 4% of the endowment. Therefore, the financial objective is to earn a total return (net of all fees and expenses) equal to or exceeding the spending rate plus the inflation rate—as measured by the Consumer Price Index.

## Short-Term Fund

The overall financial goal of the Short-term Fund is to reduce volatility risk and provide stability for funds that will be used by the Foundation for scholarships and program support within the next 12-18 months. Cash and cash equivalents will be used to meet short-term liquidity needs and maintain the value of funds deposited in the Short-term Fund.

The Chief Development Officer of the Foundation will be responsible for recommending the annual funding need for the Short-term Fund. Any changes to the recommendation must be approved by the Investment Committee.

## Investment Objectives

Investment objectives for the overall endowment include the following:

- Attain a total return matching or exceeding the portfolio's composite benchmark.

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- Attain a total return matching or exceeding a relevant universe (e.g. endowments of a similar size of a smaller group of institutions with whom the University competes for students).
- Incur only a reasonable and prudent level of risk, which is codified in the target asset allocation and portfolio benchmark.

## Investment Guidelines

For an endowment to maintain its level of support, it must earn an investment return equal to the spending rate plus the inflation rate. It is critically important for the asset manager to maintain a diversified portfolio; therefore, the investment committee will ensure the adherence to the following asset allocation guidelines for the aggregate of the Investment Funds.

## Asset Allocation by Asset Class

Type of Investment (1)	Minimum	Maximum	Target
Public U.S Equity	40	60	50
Bonds	25	35	30
Public International Equity (2)	5	15	10
Alternative	0	10	5
Cash	0 Minimum dollar target recommended by Chief Development Officer	10	5
Private Debt and Equity	N/A	N/A	Investments to be preapproved by the Investment Committee

The rationale is to obtain the best possible expected return, given the level of risk assumed. The investment policies of the Foundation will be carried out by means of investment strategies that reflect continuous evaluation of changing investment environments, manager judgment regarding the allocation of the assets among different kinds of asset classes, identification of appropriate investment vehicles and the making of specific investment decisions.

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## Authorized Investments

The following are the guidelines for investments and limits on security types, issuers, and maturities as established by the Investment Committee. The Investment Committee shall have the option to further restrict investment percentages from time to time based on market conditions. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment. Investments not listed in this policy are prohibited.

Equity investments shall be limited to securities selected from the following types:

- U.S. denominated Common Stock (inclusive of 'American Depositary Receipts "ADR") listed on the NYSE or NASDAQ. (Max position = 5% per company)
- Mutual Funds, Exchange Traded Funds & Closed End Funds
  - i. These funds may offer exposure to different categories of risk such as global, regional, sector, currency, investment style and asset class. In addition, the Advisor may invest in other selected opportunities in which a strong investment theme is seen to be present.

Fixed Income investments shall be limited to securities selected from the following types:

- U.S. Treasury Bills, Notes, Bonds, and other obligations whose principal and interest is fully guaranteed by the United States of America or any of its agencies or instrumentalities
- U.S. Government Sponsored Enterprises: Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Financing Corporation (FICO), The Resolution Funding Corporation (REFCO), Farm Credit System Financial Assistance Corporation, the Federal Housing Finance Board and all other government sponsored agencies and enterprises with an investment grade rating.
- Municipal Bonds rated BBB- and higher by either Standard & Poor's and Moody's at the time of purchase. Thereafter, any security downgraded below BBB- by either rating agency will be sold at the earliest beneficial opportunity. (Max position = 5% per issuer)
- Mortgage-Backed Bonds (inclusive of residential and commercial) and Asset-Backed Securities: rated "AA" and higher by either Standard & Poor's or Moody's at the time of purchase. Thereafter, any security downgraded below AA will be sold at the earliest beneficial opportunity. (Max position = 5% per issue)
- Corporate Notes rated BBB- and higher by either Standard & Poor's and Moody's at the time of purchase. Thereafter, any security downgraded below BBB- by either rating agency will be

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sold at the earliest beneficial opportunity. (Max position = 5% per issuer)

- i. Subordinated notes (aka. Hybrid bonds) and Preferred Stock will be permitted if the issuer has a senior rating of BBB- or higher.
- Mutual Funds, Exchange Traded Funds & Closed End Funds

Alternative Investments shall be limited to publicly available mutual funds, interval funds, closed end funds and exchange traded funds unless approved by the Investment Committee.

## Restricted Investments

Investment Manager(s) shall not utilize derivative securities unless prior approval has been granted by the Investment Committee. Moreover, the Investment Manager(s) are precluded from using derivatives to affect a leveraged portfolio structure unless prior approval has been granted by the Investment Committee. It is understood that some of these instruments may be used within exchange-traded and mutual funds.

It should be recognized that certain securities may meet the above definition of an Authorized Investment but their risk characteristics, as created by their structure, may be such that a prudent investor would deem them inappropriate for the Foundation.

## Rebalancing

Rebalancing is the process of adjusting or returning a portfolio toward the target asset allocation specified in the investment policy. Failure to rebalance increases the portfolio's risk level. Whenever possible the Investment Manager will rebalance the portfolio through cash flow. Rebalancing can be accomplished quite efficiently by adding to incoming dollars to asset classes that are below their target weight and by removing spending dollars from overweighed asset classes.

The Investment Manager and the Investment committee will address rebalancing issues quarterly during the regularly scheduled meeting. Should an allowable range of an asset class be violated, the Committee must decide whether to rebalance what existing assets within the acceptable range within three months of the time when the deviation is discovered.

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## Investment Manager Responsibilities and Performance Measurement

1. The Investment Manager will manage the Foundation's assets in a manner consistent with the Investment objectives, guidelines, and constraints outlined in this statement and in accordance with applicable laws; specifically, the "prudent Investor" and "uniform Management of Institutional Funds acts.
2. The Investment Manager will have the responsibility to allocate investment resources within the ranges listed above.
3. The investment Manager will periodically rebalance the portfolio to account for cash flow needs.
4. All Investment Managers are required to report on a timely basis to the Committee and the staff of the Stockton University Foundation any significant changes in their firm's' ownership, organizational structure, professional personnel, and account structure (e.g. number of accounts or size of assets under management or account minimums) or fundament investment philosophy.
5. Each Investment Manager will report on a quarterly basis and provide information including but not limited to the following: Asset Allocation, Total return, net of fees and other costs compared with appropriate indices and peer groups over year-to-date, one year, three year, five year and since inception periods. Portfolio listing, attribution analysis, cash flow analysis and transaction detail (examples to be found in Appendix Investment Managers will communicate regularly with the Committee and the Foundation's staff concerning their investment strategy and outlook.
6. Active versus passive investment. It is incumbent upon the Investment Committee to be cognizant of best practices and periodically review the long-term cost versus benefit of the decisions taken on behalf of the Foundation.
7. The Committee will select Investment managers based on performance relative to peer group, performance relative to assumed risk, correlation to specified index (benchmark), assets under management, expenses, stability of the organization, and other due diligence undertaken by the Committee.

## Delegated Investment Manager Requirements

Donors who have requested that the Foundation consider delegated investment management for assets in a donor advised fund should submit the request in writing for the Foundation's approval. The Foundation should review the stability of the organization that is recommended and monitor the investment performance of the investments. The

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Foundation reserves the right to change the manager and the investments as it deems appropriate.

## Termination

It is expected that the Investment Manager provide an expected total rate of return based upon the spending policy. If the manager underperforms based on relevant indices over a market cycle (3-5 years) the existing relationship may be terminated at the discretion of the Foundation Board of directors.

## Conflict of Interest

It is the policy of the Board of Directors to avoid conflicts of interest in its operations, including the selection of Investment Managers or funds. Each member of the Board, Investment Committee, and administration shall disclose the nature of any relationship with any manager of any fund under consideration and recuse themselves from decisions where they have a potential conflict of interest. No independent investment consultant retained by the Foundation shall be a party to any transaction or have a financial or other interest in any Investment Manager providing services to the foundation or any fund in which the Foundation has an investment.

## Appendix A: Quarterly Reports

1. Appraisal - List of holdings as of quarter end
2. Transactions - List of purchases and sales as well as contributions and withdrawals for quarter
3. Cash Flow - A report showing how the market value of the portfolio changed during the quarter, fiscal year-to-date and from inception. The report will include income received, fees, contributions, withdrawals, change in accrued income and market value change. It will also have a summary of performance for each period covered
4. Performance - Time weighted total return for the quarter, fiscal year to date, 1 year, 3 year, 5 year and from inception periods. Comparison will be against the Stockton Benchmark return.
5. Asset Allocation - Current allocation compared to the policy benchmarks
6. Attribution - Portfolio performance decomposed to show allocation and selection decisions against the portfolio benchmark and the Vanguard Balanced Index Fund.
7. Buys and sells during a period. An activity narrative explaining the thesis supporting both buy and sell decisions, by transaction, during the quarter.

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## Appendix B:        Benchmarks

The Benchmark will be utilized to evaluate total performance and volatility of the portfolio. Reports must list the constituents both individually and as a whole to allow the Investment committee to evaluate the performance.

Stockton Foundation Benchmark		
<u>Index</u>	<u>Asset Class</u>	<u>Weight</u>
S&P 500 Index	Large Cap US Equity	42.00
S&P MidCap 400 Index	Mid Cap US Equity	5.00
S&P SmallCap 600 Index	Small Cap US Equity	3.00
MSCI EAFE Index	Developed International Equity	7.00
MSCI Emerging Markets Index	Emerging Market Equity	3.00
BB US Aggregate Bond Index	Investment Grade US Fixed Income	25.00
BB US Corporate High Yield Bond Index	High Yield US Fixed Income	5.00
Wilshire Liquid Alternative Index	Liquid Alternatives	5.00
FTSE 1 Month Treasury Bill Index	Cash	5.00