

# The Stockton University Foundation Investment Policy

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Policy:

Adopted: June 2017

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 require 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 Richard Stockton College Foundation consisting of seven 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.

The Investment Manager is responsible for maximizing investment return and growth of the Foundation's assets within the risk guidelines

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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.

## Investment Objectives

Investment objectives for the overall endowment include the following:

- Attain a total return matching or exceeding the portfolio's composite benchmark.
- 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 College competes for students).
- Incur only a reasonable and prudent level of risk, which is codified in the target asset allocation and portfolio benchmark.

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## 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 Long-Term Endowment Fund.

### Asset Allocation by Asset Class

Type of Investment (1)	Maximum	Target	Minimum
Domestic Equities	65	42	30
Fixed Income	50	40	30
International Equities (2)	15	8	0
Alternative Investments	10	5	0
Short-term Securities	10	5	0
Cash	8	5	0

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
Private Equity	0	5	2.5
Alternative	0	5	2.5
Cash	5	10	5

- (1) Domestic equities should be diversified by sector. Any departure from the S&P 500 sector weightings exceeding 5% should be discussed by the investment manager and approved by the Investment Committee. No security by asset class will exceed 5% per issuer, excluding U.S. government guaranteed obligations.
- (2) International Equities should be well diversified between developed and emerging markets and reported on separately.

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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## Restricted Investments

Investment Manager(s) shall not utilize derivative securities unless prior approval has been granted by the Investment Committee. These include but are not limited to structured notes, lower class tranches (as defined by the Federal financial Institutional Examination Council) of collateralized mortgage obligations (COS), principal only (PO) or interest only (IO) strips, inverse floating securities, futures, contracts, options, short sales, margin trading, and such other specialized investment activity. 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.

## 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.

## 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.

## 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.

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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 Richard Stockton College 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 fundamental 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 A). Investment Managers will communicate regularly with the Committee and the Foundation's staff concerning their investment strategy and outlook.
6. Active versus passive investment. The fund shall maintain, in addition to its bespoke benchmark(s), a passive investment benchmark such as the Vanguard Balanced index Fund. It is incumbent upon the Investment Committee to be cognizant of best practices and periodically review of 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 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.

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## 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 and the Vanguard Balanced Index Fund
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.