The Nebraska Wesleyan University
Endowment

Investment Policy Statement

Adoption

This Investment Policy Statement ("IPS") was adopted or revised by the Board of Governors of Nebraska Wesleyan University for the Nebraska Wesleyan University Endowment ("Endowment") on September 20, 2013.

Purpose of IPS

This purpose of the IPS is to outline the following general provisions affecting the Endowment by:

- Assisting the Finance & Audit Committee ("Committee") and Board of Governors ("Board") to fulfill their fiduciary responsibilities;
- Conveying the Endowment's purpose, investment objective, investment strategy and constraints;
- Establishing a decision-making framework to promote the effectiveness of the Endowment;
- Intending for the Endowment to be maintained in compliance with applicable laws, including the Uniform Prudent Management of Institutional Funds Act (UPMIFA); and
- Setting forth the role and responsibilities of the Committee, Board, Investment Consultant ("Consultant") and other relevant parties.

Statement of Purpose

The purpose of the Endowment is to promote, encourage, and advance education and to improve educational functions by investing to support scholarships, professorships, fellowships, academic chairs, and other academic and operational endeavors as determined by the University's Board of Governors.

Statement of Objectives

The **primary** investment objective is to preserve the long-term purchasing power of the Endowment's assets after accounting for spending. This means that the Endowment intends to seek, on average, a minimum total annual rate of return equal to inflation plus actual Endowment spending over a perpetual investment time horizon. In order to have an opportunity to meet this **primary** objective, a long-term investment perspective is required when formulating investment strategy and evaluating spending levels. (For purposes of this IPS, a "long-term investment perspective" is defined as more than 10 years.)

The Endowment has two **secondary** co-equal objectives. The first is to <u>increase</u> its long-term purchasing power after spending, which would require a total annual rate of return to exceed inflation plus Endowment spending. The other **secondary** co-equal objective is to prudently diversify overall Endowment risk as to mitigate the magnitude of intermediate-term investment losses that could jeopardize the Endowment's long-term mission. These two secondary objectives may be in conflict at times, so the Committee must find balance between them when formulating or revising investment strategy. (For purposes of this IPS, "intermediate-term" is defined as 5-10 years.)

Liquidity Constraints

The Endowment intends to limit investments with less than annual liquidity to no more than 20 percent of total portfolio assets. Total daily liquid assets are intended to exceed 60 percent of portfolio assets at the time of investment.

Spending Policy

The Spending Policy for the Endowment as set forth by the Committee and Board shall be 4.5% of the twelve-quarter moving average of the Endowment's market value as of the preceding calendar year. The distribution rate is based upon a total return approach, which utilizes both income and capital appreciation to be withdrawn for spending.

It shall be the responsibility of the Committee to review annually the spending policy and to make recommended and approved adjustments when necessary to preserve the purchasing power of the Endowment or for other purposes. The Committee will recommend changes to the Board for approval.

UPMIFA states that the institution "subject to the intent of a donor, may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria guide the institution in its yearly expenditure decisions: "1. Duration and preservation of the endowment fund; 2) the purposes of the institution and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the institution; and, 7) the investment policy of the institution". Therefore, the institution may apply its spending rate even though its application may cause the value of the fund to fall below its historic dollar value.

Investment Constraints

There are no explicit prohibitions against investing a portion of the Endowment's assets in any asset class, investment strategy or investment manager structures, so long as the investment is;

- For the sole purpose of advancing the objective of the Endowment;
- Appropriate given the Endowment's investment strategy;
- Not in violation any of the Endowment's liquidity constraints; and
- Intended to improve the Endowment's aggregate investment strategy's expected risk-adjusted performance.

The Committee intends to consider the explicit and implicit costs that may be incurred as a result of adding a new asset class, investment strategy, or investment manager structure and determine whether the merit of the investment justifies any applicable additional costs. Explicit costs include, but are not limited to, investment management fees, custody costs and additional audit expenses. Implicit costs include, but are not limited to, the cost of time and administrative resources that could be allocated elsewhere to improve the effectiveness of the Endowment.

Investment Strategy

The Committee acknowledges that the Endowment's asset allocation strategy is likely to be its primary determinant of performance. The Endowment's investment strategy involves diversifying among various asset classes, investment strategies and investment managers in order to pursue the Endowment's investment objective(s) while complying with its constraints.

While reserving the right to take timely advantage of long-term investment opportunities as they present themselves, the Committee intends to refrain from making dramatic shifts to the Endowment's investment strategy based on short-term capital market expectations.

With the assistance of its Consultant, the Committee intends to review or revise the target allocation to asset classes periodically to ensure the investment strategy remains consistent with the Endowment's investment objectives.

With the assistance of its Consultant, the Endowment's allocation will be monitored on a periodic basis to determine whether rebalancing back to its target allocation is warranted. This rebalancing process is likely to result in withdrawing from investments that have recently outperformed and/or adding to investments that have recently underperformed. With regards to periodic withdrawals (or contributions) that may be made to (or from) the Endowment, partial rebalancing will generally have the objective of bringing the Endowment closer to its target asset allocation.

The investment strategy will be illustrated by the Endowment's target allocation, and it will be detailed in a section of the Endowment's periodic performance report. The target asset allocation illustrated in the most recent quarterly performance report will function as an appendix to this IPS. Only the Committee has the authority to revise the target asset allocation reflected in the periodic performance report.

In addition to achieving the investment objectives previously outlined in this Statement, the goal of the overall investment strategy is to meet or exceed (a risk-appropriate) benchmark over full market cycles. The benchmark will constitute underlying market indices appropriate for the strategy, and its components will be illustrated in the **periodic performance report** provided by the Consultant. The Committee may also use additional performance benchmarks including, but not limited to, broader and/or more specific benchmarks made up of multiple underlying indices, peer group comparisons to similar Endowments, inflation-adjusted absolute return benchmarks, or any other benchmark the Committee believes will further its evaluation of the Endowment's relative risk-adjusted performance.

Investment Manager Selection

The Endowment may select investment managers through a variety of investment vehicles including, but not limited to, separate accounts, mutual funds, commingled funds, or private partnerships.

The underlying investment managers selected for the Endowment are intended to be selected with the care, skill and diligence that would be applied by a prudent person acting in a like capacity and knowledgeable about investing.

With the assistance of its Consultant, the Committee will examine investment managers' investment objectives and processes; historical adherence to stated objectives and processes; depth of resources; quality of personnel; historical performance (including risk) versus various appropriate benchmarks; appropriateness of diversification; reasonableness of fees; and any other metric that may be material when evaluating investment managers' capabilities. The Committee will use all available information and its best judgment when seeking to hire skillful investment managers. The Committee may also select low cost, passively managed investment products where appropriate.

Investment Manager Evaluation and Oversight

With the assistance of its Consultant, the Committee intends to periodically review the performance of the underlying investment managers. Investment manager performance will be evaluated against proper indices, peer group comparisons, and risk-adjusted performance metrics. They will also be evaluated against other metrics that may include but are not limited to expenses, consistency of strategy or style, or other qualitative factors.

Investment managers may be considered for possible termination if they fail to meet performance or other guidelines enumerated in the **Endowment's periodic performance report** provided by the Consultant. The performance summary section of the most recent performance report, including managers and their various benchmarks, will serve as an appendix to this IPS. Since several studies have demonstrated that the vast majority of strong long-term performing investment managers suffer multi-year periods of underperformance, failure to meet performance or other qualitative guidelines will not automatically trigger a manager termination. With the assistance of its Consultant, the Committee intends to use all known information and its best judgment to determine if and when terminating a manager is warranted. Events that may trigger a termination include but are not limited to illegal or unethical behavior on the part of the manager; failure to follow investment guidelines; turnover among key personnel; a change in investment style or strategy; insufficient infrastructure to keep pace with asset growth; significant increase in expenses or fees; and any other observation the Committee deems may prevent the manager from carrying out its duties effectively. In addition, managers may be terminated at any time for any reason at the discretion of the Committee.

Roles and Responsibilities

The following is a summary of roles and responsibilities of various parties involved in overseeing or safeguarding the Endowment's assets:

<u>Board of Governors</u>

- Select qualified members to serve on the Committee.
- Review Committee's proposed changes to investment policy statement.
- Ratify Committee's proposed changes to the IPS before any changes are implemented.
- Periodically request a performance summary from the Committee.
- Avoid prohibited transactions and conflicts of interest.

<u>Committee</u>

- Oversee the management of assets.

- Act solely in the best interest of the Endowment and its mission.
- Determine investment objectives, develop investment (and asset allocation) strategies, and create performance guidelines.
- Set and revise the investment policies and receive board approval before IPS implementation.
- Empower Administration with daily responsibility for administration of the Endowment's investment portfolio. Select Consultants, investment managers, custodians, and any other vendors required to administer and manage the Endowment.
- Periodically review all Endowment-related expenses to ensure they are competitive and appropriate. Take action if they are not.
- Review and evaluate investment results and make changes as needed.
- Provide periodic performance reports to the board.
- Avoid prohibited transactions and conflicts of interest.

<u>Consultant</u>

- Assist in the development and periodic review of the investment policy.
- Proactively recommend changes to enhance the effectiveness of the investment policy, investment strategy, or asset allocation.
- Make proactive investment manager hire and fire recommendations.
- Monitor aggregate and manager-level performance to ensure compliance with stated objectives.
- Provide the Committee with quarterly performance and attribution updates.
- On a timely basis, notify the Committee if there are pertinent developments with any of the Endowment's investment managers.

<u>Investment Managers</u>

- Manage assets in accordance with the guidelines and objectives outlined in prospectuses (mutual funds), investment agreements (commingled funds, private partnerships, etc.), or manager-specific investment guidelines (separate accounts).
- Exercise investment discretion to buy, manage, and sell assets held in the portfolios.
- Promptly vote proxies and related actions in a manner consistent with the long-term interest of the Endowment as an investor.
- Communicate all organizational changes in a timely manner, including but not limited to ownership, organizational structure, financial condition, and professional staff.

- Seek “best price and execution” for transactions. Both explicit and implicit transactions costs should be considered.

- Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like portfolios with like aims in accordance and compliance with Uniform Prudent Management of Institutional Funds Act (UPMIFA) and all applicable laws, rules, and regulations.

Custodian

- Safeguard portfolio assets.

- Accurately value portfolio holdings.

- Execute buy/sell orders and cash transfers in a timely manner as directed by the Committee or Board.

- Collect all income and dividends owed to the Portfolio.

- Settle all transactions (buy-sell orders) initiated by separate account investment managers.

- Provide monthly reports that detail transactions, cash flows, securities values, and changes in the value of each security and the overall portfolio since the previous report.

- Provide all requested portfolio information to the Consultant, Board and Committee in a timely manner.

Evaluating and Selecting Service Providers

In carrying out the policies of this IPS, the Committee may rely on various service providers including, but not limited to, the Consultant, trustee, custodian, administrative services provider(s), and investment managers. Such service providers generally shall be evaluated and selected based on the following:

- Furthering the Purpose of the Endowment in Cost-Effective Manner. Each service provider is intended to advance the purpose of the Endowment, which is to meet the objectives previously stated in this IPS. The service providers shall be expected to deliver administratively efficient services and charge fees that are reasonable given the service(s) provided.

- Core Business Commitment and Expertise. Each service provider is intended to have a history of providing services to other similar Endowments and demonstrate an ongoing commitment to such business. Its employees should have a reputation among its clients for the quality of its services. The firm should show an appropriate knowledge of other applicable statutes and regulation.

- Fiduciary Status and Conflicts of Interest. To the extent required based on the services being provided to the Endowment, the service provider shall acknowledge its role as a fiduciary to the Endowment. Service providers are expected to disclose any potential conflicts of interest to the Committee.

Voting of Proxies

For separately managed accounts, if applicable, investment managers will be expected to vote proxies in the best interest of the Endowment as an investor. When applicable, mutual fund proxies are intended to be voted in the best interest of the Endowment.