

# Investment Policy – Endowed Funds

University Operations – Financial Activities

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**EWU Policy 202-01**

**Authority: EWU Board of Trustees**

**Effective November 20, 2015**

**Proponent: Vice President for Business and Finance**

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**Purpose:** This policy prescribes standards for managing investments of endowed funds of Eastern Washington University. The purpose of this investment policy is to set forth the policies and procedures that shall guide the Board of Trustees of Eastern Washington University (the “University”) in monitoring the management of the University’s investable endowment assets (the “Fund”).

**History:** This policy supersedes the previous version dated July 18, 2012. This policy was adopted by the board of trustees on November 20, 2015. The policy was revised to reflect the Board of Trustees commitment to socially responsible investing. On June 26, 2015, the EWU Board of Trustees approved Motion 06-06-15: Eastern Washington University is a signatory to the President’s Climate Commitment, a national pledge to help reduce global warming and address climate change. In addition, Eastern Washington University has set a goal to be a national leader in sustainable practices; we are currently developing a sustainability master plan to align with our overall strategic plan. The Eastern Washington University Board of Trustees supports moving the endowed funds portfolio into a socially responsible investment strategy to be accomplished while ensuring optimal return on investment. The Board of Trustees further directs the University to revise the endowed funds investment policy to reflect our goal of divestment in fossil fuels.

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## I. Policy

It is the policy of Eastern Washington University, an institution of higher education in the state of Washington, to invest endowed funds in investment portfolios that are optimal. An optimal portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return.

Furthermore, the Board of Trustees supports a socially responsible investment strategy to be accomplished while ensuring optimal return on investment. At a minimum, the investment portfolio will reflect a goal of divestment of holdings in fossil fuels.

In order to fulfill the stewardship and total return goals of the institution, the policy includes:

1. A long-term focus both in terms of expected rates of return and distributions for the funds.
2. Multiple asset classes for maximum diversification and participation in multiple markets.
3. Structure a portfolio that applies the concepts of socially responsible investing practices.

## II. Policy Review

This statement shall be reviewed at least every five years by the Investment Committee and any recommendations for changes presented to the Board of Trustees.

## III. Scope of Identification of Funds

This policy applies to the endowed funds of the University.

## IV. Standards of Care

The Vice President for Business and Finance or designee shall perform the investment duties in a manner consistent with this policy. Investments shall be made with judgment and care consistent with the standard of a prudent investor, in light of the purposes, terms, requirements and other circumstances then prevailing as to the assets entrusted to her or him.

In investing, she or he shall exercise reasonable care, skill, diligence and prudence, considering investments not in isolation, but in the context of the portfolio as a whole and of an overall investment strategy. That strategy should incorporate the risk and return objectives set forth in this policy.

## V. Portfolio Composition and Pool Allocation

The long-term endowment pool shall have an overall asset balance that recognizes the inherent growth potential of equities and bonds for an endowment that will exist in perpetuity. The Investment Advisory Committee shall select benchmarks to measure performance of the long-term endowment pool. The comparison of actual results to the benchmark shall be part of the report to the Investment Advisory Committee and Board of Trustees and this report shall be made at least annually.

### 1. Asset Allocation

The asset allocation target range is established by the Investment Advisory Committee and matches the broad allocation percentages defined in the performance benchmark objective.

The asset mix may deviate from the target as shown in Appendix A. Deviations outside the policy range will require the rebalancing back to the target.

## 2. Performance Benchmark Objective

The endowment investment goal is to match or exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The performance benchmark will adjust in line with the asset allocation in this policy.

## VI. Goals and Objectives

### *Objectives of the Fund*

The Fund has a long-term investment horizon. The primary investment objectives of the Fund are to:

- Maintain the real purchasing power of the Fund after inflation, costs and spending (i.e., achieve “intergenerational equity”);
- Provide a stable source of liquidity and financial support for the mission of the Endowment.

## VII. Delegation of Authority

The Board of Trustees of Eastern Washington University is vested by statute with responsibility for the management of the properties of the University.

To ensure effective management of these funds the Vice President for Business and Finance, upon delegation of authority by the Board of Trustees, may assign investment responsibilities to individuals or qualified external professionals who will have the authority to perform these investment duties.

Delegations related to the management of the University’s investment portfolios are as follows:

### 1. Board of Trustees elects to:

- Delegate the responsibility for overseeing the investment program of the University to the Vice President for Business and Finance.
- Appoint members of the Investment Advisory Committee. The Investment Advisory Committee shall meet quarterly and be comprised of two members of the Board of Trustees and two members from the investment banking community. A member of the Board of Trustees shall be the chair of the Investment Advisory Committee. The Vice President for Business and Finance, Chief Financial Officer, and Controller shall be ex-officio members of the Investment Advisory Committee.

- Approve investment policies that establish broad guidelines for the management of the of the University’s investment portfolios based upon recommendation of the Investment Advisory Committee and the administration.

### 2. Investment Advisory Committee shall:

- Oversee the University’s investment programs within the broad guidelines established by the investment policy. The Committee shall act in an advisory capacity to the Vice President for Business and Finance and Chief Financial Officer.

### 3. Vice President for Business and Finance shall:

- Sign investment agreements, custody agreements and other investment related documents.
- Provide management oversight of the investment program of the University.
- Establish written investment procedures for the operation of the investment program consistent with this policy.

### 4. Associate Vice President and Chief Financial Officer shall:

- Provide supervisory oversight of the cash management and investment officers in order to confirm that the performance expectations remain in place.
- Implement and monitor compliance with investment procedures.

## VIII. Investment Policy and Procedures

The Vice President for Business and Finance shall establish written investment policy procedures for the operation of the investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and pursuant to the procedures established by the Vice President for Business and Finance.

The Vice President for Business and Finance shall use prudent discretion in selecting portfolio managers to hold, manage and trade the collective portfolio. The individual portfolio managers shall be required to send a representative to meet with the Investment Advisory Committee at least twice per year, or more frequently, at the discretion of the Committee.

### **Investment Policy**

*-Asset allocation.* The Committee shall, consistent with the above sections, invest the Fund using an asset allocation that is designed to meet the Fund's long-term goals. The allocation will be based on the objectives of the Fund as set forth above.

*-Illiquid investments.* Because of their long-term nature, investments in and commitments to illiquid investment strategies, including but not limited to private capital, private equity real estate, natural resources, distressed debt and other similar private investments, shall be analyzed and discussed by the Committee separately.

*-Targets and ranges.* The asset allocation shall be implemented using a policy portfolio as set forth in Appendix A, with target allocations and ranges for each investment strategy. Due to the need for diversification and the longer funding periods for certain investment strategies, the Committee recognizes that an extended period of time may be required to fully implement the asset allocation plan. It is expected that market value fluctuations will cause deviations from the target allocations to occur.

*-Rebalancing.* The purpose of rebalancing is to maintain the Fund's policy asset allocation within the targeted ranges, thereby ensuring that the Fund does not incur additional risks as a result of having deviated from the policy portfolio. Rebalancing will take place on a portfolio basis to reduce expenses as far as practicable.

*-Standard of conduct.* In managing and investing the Fund, the Committee shall:

- Act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances;
- Incur only costs that are appropriate and reasonable in relation to the assets, the purpose of the University and the skills available to the University;
- Make management and investment decisions about an individual asset not in isolation, but rather in the context of the Fund's portfolio of investments as a whole and as a part of the University's overall investment strategy, including the risk and return parameters set forth in this Statement.

*-Investment manager reporting and evaluation.* The investment managers responsible for the investment of the Fund's assets shall report quarterly on their performance. Reports shall include, at a minimum, the following information:

- Comparative returns for the Fund assets under management against their respective benchmarks.
- A complete accounting of all transactions involving the Fund during the quarter.

Each investment manager shall review the portfolio with the Investment Committee at least twice per year; these review meetings may be supplemented by such other meetings as the Committee may think necessary.

When possible, the Committee shall monitor and compare the Fund's performance relative to:

- Absolute return objectives for the Fund
- The respective benchmarks for each asset class or strategy in which the Fund is invested, as set forth in the asset allocation table in Appendix A

### **IX. Asset Allocation, Investment Strategies, Guidelines and Restrictions**

The Fund shall be diversified both by asset class and within asset classes. Within each asset class, investments shall be diversified further among economic sector, industry, quality and size. The purpose of this diversification is to provide a reasonable assurance that no single security or class of securities will have a disproportionate impact- positive or negative- on the overall performance of the Fund.

Appendix A contains the Fund's target asset allocation and range for each asset class or investment strategy, together with the applicable guidelines and restrictions. Taken together, these constitute a framework to assist the University and its investment managers in achieving the Fund's investment objectives at a level of risk consistent with the parameters set forth in this statement.

#### **Spending**

*-Policy spending rate.* The policy spending rate for the Pool shall be a maximum of 5 percent.

*-Spending formula.* The amount available for allocation during each fiscal year shall be calculated as follows:

- No less than 3 percent nor more than 5 percent of the average of market value of the pool as of the end of the most recent three fiscal years

## **Investment Strategies, Guidelines and Restrictions**

### ***Equity Securities***

The purpose of equity investments, both domestic and international, in the Fund is to provide capital appreciation, growth of income, and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return goals.

### ***Fixed Income Securities***

Domestic and International fixed income investments provide diversification dependable source of current income. Diversification within fixed income investments will be flexibly allocated among maturities of different lengths according to interest rate prospects and the goals of the fund. Fixed income instruments should reduce the overall volatility of the Fund's assets, and provide a deflation or inflation hedge, where appropriate.

### ***Cash and Equivalents***

The Investment Manager(s) may invest in cash and near-cash instruments to provide income, liquidity for expense payments, and preservation of the Pool's principal value.

### ***Alternatives***

Private Capital Partnerships- Investment allocations may include venture capital, private equity and international private capital investments, held in the form of professionally managed pooled limited partnership investments. Such investments must be made through funds offered by professional investment managers.

Marketable Alternative Strategies- Investments may include equity-oriented or market-neutral hedge funds, which can be both domestic and international market oriented. These components may be viewed as equity-like or fixed income-like strategies as defined by their structures and exposures.

Natural Resources- Subject to socially responsibility investing goals and restrictions, the Fund may be invested in natural resources, held in the form of professionally managed pooled limited partnership investments. Such investments must be made through funds offered by professional investment managers.

Real Estate- Investments may include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investment may be made only through professionally managed pooled real estate

investment funds, as offered by leading real estate managers with proven tracks records.

## **X. Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose in writing to the Chief Financial Officer and Vice President for Business and Finance any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the University. Such persons will have an ongoing duty to report any changes in this information and to keep the disclosure current.

## **XI. Professional Services**

The Vice President for Business and Finance or designee may contract for professional services as necessary for the efficient management of investments.

## **XII. Internal Controls**

The Vice President for Business and Finance or designee will maintain internal controls to protect against the loss of public funds arising from negligence, theft or misuse. These controls will include, but not be limited to:

The Investment Advisory Committee, Chief Financial Officer, Vice President for Business and Finance, and authorized investment officers will regularly review this policy.

As prescribed by RCW 43.09.050, the state auditor may audit the accounts and inspect the books of the University to determine the compliance of investment activities with state statutes and this policy.

## **XIII. Reporting**

The Chief Financial Officer will provide monthly compliance and performance reports to the Vice President for Business and Finance.

The Chief Financial Officer will provide quarterly reports on compliance and performance to the President, Vice President for Business and Finance, and Investment Advisory Committee.

## Appendix A: Operating Guidelines

<b>Asset Class</b>	<b>Target</b>	<b>Policy Range</b>	<b>Representative Index</b>
<b>US Public Equities</b>	30%	25-35%	S&P 500
<b>Private Equity</b>	5%	0-10%	S&P 500 plus 400 basis points
<b>International Equities</b>	10%	5-10%	MSAC World Index US
<b>Fixed Income</b>	30%	25-35%	Barclays Aggregate
<b>Commodities</b>	5%	0-10%	DJAIGTR
<b>Hedge Funds</b>	5%	0-10%	HFR Index
<b>Natural Resources</b>	5%	0-10%	
<b>Real Estate</b>	5%	0-10%	NCREIF/Towsend Opportunity
<b>Cash and Equivalents</b>	0%	0-15%	90 Day T-Bill