

# Salem State University Foundation, Inc.

## Investment Policy Statement

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### I. Introduction

The SALEM STATE UNIVERSITY FOUNDATION, INC. (the "Foundation") was created to provide perpetual financial support to Salem State University (the "Institution") and its mission of serving the needs of the Institution. The purpose of this Investment Policy Statement is to establish guidelines for the Foundation's investment portfolio (the "Portfolio"). These guidelines relate to those gifts and donations in the form of endowments, with long-term benefit objectives, and to those contributions received for the current benefit to the Institution. The statement also incorporates accountability standards that will be used for monitoring the progress of the Portfolio's investment program and for evaluating the contributions of the manager(s) hired on behalf of the Foundation and its beneficiaries.

The Foundation BOARD OF DIRECTORS, (the "Board") has appointed an INVESTMENT COMMITTEE, (the "Committee"), to supervise the management of foundation funds. When it deems appropriate the committee may make investment recommendations to the board for discussion and approval.

### II. Role of the Investment Committee

The Investment Committee (the "Committee") is acting in a fiduciary capacity with respect to the Portfolio, and is accountable to the Board for overseeing the investment of all assets owned by, or held in trust for, the Portfolio.

- A. This Investment Policy Statement sets forth the investment objectives, distribution policies, and investment guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for Portfolio assets.
- B. The investment policies for the Foundation contained herein have been formulated consistent with the institution's anticipated financial needs and in consideration of the Institution's tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Committee, and recommended to and approved by the Board.
- C. Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring that the Portfolio's investments are managed consistent with the short-term and long-term financial goals of the Foundation. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in capital market conditions and in the financial circumstances of the Institution.
- D. The Committee will review this Investment Policy Statement at least once per year. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the Committee, then approved by the Board, and written confirmation of the changes will be provided to all Committee members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

### III. Investment objective and spending policy

- A. The expendable amount available each fiscal year from any endowed fund shall be no greater than an amount equal to 5% of the average market value of the fund at the end of September of each of the three preceding years. The 5% is split with 4% going to programming consistent with donor intent and 1% management fee. Notwithstanding, the expendable amount from any fund may not equal or exceed an amount that, if expended, would reduce the market value of that fund below its historic book value (donated principal). The investment committee will periodically review the spending policy and shall recommend any modifications it deems appropriate.
- B. With Board approval, in any given year when expenditure of 5% of the average market value of the fund at the end of September of each of the three preceding years would result in the value of the fund falling below the historic basis, income earned from the previous twelve months may be expended. Additionally, with board approval, the expendable amount available will be no less than the amount awarded previously.
- C. The Foundation's endowment spending policy is designed to meet several objectives:
  1. provide a stable and significant stream of revenue from year to year for current needs;
  2. protect the value of endowment assets against inflation thereby protecting against lower levels of support in the future; and
  3. encourage real long-term growth of endowment assets.

### IV. Portfolio investment policies

#### A. Asset allocation policy

1. The Committee recognizes that the strategic allocation of Portfolio assets across broadly defined financial asset and sub-asset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio asset value stability.
2. The Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to making periodic changes to the Portfolio's asset allocation, it expects to do so only in the event of material changes to the Foundation, to the assumptions underlying the Foundation's spending policies, and/or to the capital markets and asset classes in which the Portfolio invests.
3. Foundation assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of Foundation equity investments will be to maximize the long-term real growth of Portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments. The investment objective is to receive a total rate of return ("growth plus income") for the Foundation, which shall compare favorably with various appropriate benchmarks for measuring performance, as selected by the Committee.
4. Cash or cash equivalent investments will, under normal circumstances, be considered as temporary Portfolio holdings, and will be used for the Foundation's liquidity needs to support the mission of the Institution through annual distributions. One exception

is to satisfy all donor requests to maintain a stable and liquid value of their specific donations to the Foundation.

5. Outlined below are the long-term strategic asset allocation guidelines, determined by the Committee to be the most appropriate, given the Foundation’s long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated across broad asset and sub asset classes in accordance with the following guidelines:

Asset class	Sub asset class	Range	Target strategic allocation
<b>Equity</b>		<b>50-70%</b>	<b>60%</b>
	Large Cap U.S.	25-45%	25%
	Small & Mid Cap U.S.	0-20%	15%
	Non U.S. Developed	5-20%	13%
	Non U.S. Emerging	0-10%	7%
<b>Fixed income</b>		<b>20-45%</b>	<b>34%</b>
	Investment grade	20-45%	27%
	High Yield	0-10%	5%
	Other	0-10%	2%
<b>Alternatives</b>		<b>0-10%</b>	<b>4%</b>
<b>Cash</b>		<b>0-10%</b>	<b>2%</b>

6. Permitted Investments:
  - a. Cash or equivalents, and money market funds of sound quality
  - b. Equity investments in proven and well-managed companies
  - c. Government bonds, certificates of deposit, investment grade corporate bonds, and High Yield bonds
  - d. Mutual funds, exchange traded funds, and closed-end funds.
  - e. Investments are to be made from a long-term perspective with moderate annual turnover
  - f. Alternative investments could include real estate, precious metals, and commodities
  - g. Other Alternative investments could be considered subject to approval by the Committee
  
7. Unless expressly authorized by the Committee, the Portfolio and its investment managers are prohibited from:
  - a. Purchasing securities on margin or executing short sales or market timing.
  - b. Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
  - c. Purchasing or selling derivative securities for speculation or leverage.

**B. Diversification policy**

1. Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of

large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

- a. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.
  - b. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Portfolio assets.
  - c. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB- or Moody's Baa3 or higher).
2. The Investment Committee (the "Committee") has a fundamental fiduciary duty to the Foundation and Salem State University, throughout its operations regarding the Portfolio. In addition, the Committee may consider ethical and socially responsible investing concerns for inclusion as criteria for investment decisions, as feasible and financially prudent. The Committee is accountable to the Board for overseeing the investment of all assets owned by, or held in trust for, the Portfolio.

### C. Rebalancing

1. It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub asset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:
  - a. The investment manager(s) will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio to realign the current weightings closer to the target weightings for the Portfolio.
  - b. The investment manager(s) will review the Portfolio annually to determine the deviation from target weightings. During each annual review, the following parameters will be applied:
    1. If any asset class (equity or fixed income) within the Portfolio is +/- 5 percentage points from its target weighting, the Portfolio will be rebalanced.

2. If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.
3. The investment manager may provide a rebalancing recommendation at any time.
4. The investment manager shall act within a reasonable period of time to evaluate deviation from these ranges.

### **V. Monitoring portfolio investments and performance**

The Committee will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives annually. It will formally assess the Portfolio and the performance of its underlying investments as follows:

- A. The Portfolio's composite investment performance (net of fees) will be judged against the following standards:
  1. The Portfolio's absolute long-term real return target objective of 6%.
  2. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio's investment guidelines.
    - a. U.S. Equity Large Cap: S & P 500 Index
    - b. U. S. Equity Mid Cap: S & P 400 Index
    - c. U. S. Equity Small Cap: Russell 2000 Index
    - d. Non-U.S. Equity: MSCI EAFE +EM Index
    - e. Investment Grade Fixed Income: Barclays Capital U.S. Aggregate Bond Index
    - f. Non-Investment Grade Fixed Income: Barclays Capital U.S. Corporate High Yield Bond Index
    - g. Cash: Citigroup 3-Month T-Bill Index
- B. The performance of professional investment managers hired on behalf of the Portfolio will be judged against recognized standards but not limited to the following:
  1. A market-based index appropriately selected or tailored to the manager's agreed-upon investment objective and the normal investment characteristics of the manager's portfolio.
  2. The performance of other investment managers having similar investment objectives.
  3. In keeping with the Portfolio's overall long-term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.
  4. Investment reports shall be provided by the investment manager(s) on a (calendar) quarterly basis or as more frequently requested by the Committee. Each investment manager is expected to be available to meet with the Investment Committee and the full board once per year (at a minimum) to review portfolio structure, strategy, and investment performance.

**VI. Operational Procedures**

The Operational Procedures are intended to be used by the Committee as implementation and administrative guidelines for the policy. The primary objective of the Operational Procedures is to provide the Committee with the direction to oversee the investments consistent with the policy. Areas of primary oversight include, but are not limited to the following:

**A. Review of Asset Allocations**

1. The Committee will review asset allocation by category to ensure consistency between the recommendations of the Investment Manager(s) and the objectives of the Foundation as defined in the policy.

**B. Investment Manager(s) Selection**

1. The Committee will recommend to the Board selection of the Investment Manager(s). The recommendation will have resulted from a Request for Proposal (RFP) process in conformity with the Commonwealth's procurement laws and regulations.
2. Appointment of the Investment Manager(s) shall be made after an RFP process and with the approval of the Board, such appointment being for a period of not more than five (5) years unless directed by action of the Board.

**C. Criteria for Investment Manager(s) Performance and Evaluation:**

1. Committee will measure annually the performance of the Investment Manager(s). Evaluation criteria may include, but are not limited to, investment returns compared to the stated objectives for the portfolio, or various market indices or benchmarks as are determined to be appropriate. In addition, review of Investment Manager(s) performance and status of investment portfolio will be presented to the Board annually.

**D. Investment Manager(s) Compensation:**

1. The Investment Manager(s) will be engaged on a fee for services basis. The fee will be determined based on the competitive procurement process (RFP). Specific language for this computation will be clearly defined in the contract between the Foundation and the Investment Manager(s).

**E. Conflict of Interest:**

1. In accordance with Commonwealth statutes and Foundation policy governing financial conflicts of interest, directors, officers and employees of the Foundation may not have any professional or personal relationship with a securities firm, Investment Manager or employee doing business with the Foundation. Further, directors, officers and employees of the Foundation may not receive gifts, gratuities or travel expenses from Investment Manager(s), dealers, custodians or others authorized to do business with the Foundation.

**F. Accounting and Internal Controls:**

1. The Investment Manager(s) will report to the Committee quarterly or as more frequently requested by the Committee that all of the investments for which it is responsible are in

compliance with the investment policy. If any investments do not meet the policy, the Investment Manager(s) will so note and explain the reason for that breach.

2. The securities will be held at an authorized custodian in separate accounts and not commingled in accordance with MGL Chapter 29 Section 34. It will be the responsibility of the Committee to ensure that appropriate internal controls are in place for the security and handling of all accounts.
3. The Foundation will record and report all investment activity in accordance with Generally Accepted Accounting Principles. The Foundation's auditors will audit the investment records and reports in accordance with Generally Accepted Audit Standards as part of the annual audit of the Foundation's internal controls and financial statements.