

# **Investment Policy Statement for Endowments**

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Oversight Unit: FINANCE & ADMIN, VICE PRES

## **Purpose**

### **I. Introduction**

Northern Michigan University (University) is an educational institution, devoted to the preservation and transmission of knowledge, the search for truth, the teaching of students and the encouragement of scholarship and creative endeavor.

The University's Endowment Fund assets seeks to maximize financial resources for the University while also considering the sustainability of the Endowment Fund's investments. The Board of Trustees recognizes its fiduciary responsibility and intends to balance risk, return, and sustainability.

### **II. Purpose**

The purpose of this Investment Policy Statement is to establish a clear understanding of the philosophy and the investment objectives for Northern Michigan University Endowment Fund. It is meant to assist the Finance Committee and its Agents in effectively supervising and monitoring the investments of the University.

The Board of Trustees has delegated the management of the Endowment Fund to the Finance Committee. This policy applies to all assets included in the University's Endowment Fund.

## **Applicability**

All endowments.

## **Policy**

### **III. Roles & Responsibilities**

#### **A. Board of Trustees**

The Board of Trustees is responsible for the Endowment Fund. To implement these responsibilities, the Board sets and approves the investment policy statement and delegates responsibility to the Finance Committee for implementation and ongoing monitoring.

## B. Finance Committee

The Committee is responsible for implementing the Investment Policy. This responsibility includes approving strategic asset allocation targets, hiring and firing investment managers, monitoring performance of the Endowment Fund on a regular basis (not less than annually), and maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy Statement. The Committee will submit Performance Reports to the Board periodically, but no less than annually.

Contributions recommended for acceptance by the Committee and accepted by the Board which carries restrictions as to investment strategies, or restrictions on sale or transfer, will be honored in accordance with the donor's wishes in so far as possible, but always subject to the best judgment of the Committee, and legally enforceable restrictions.

The Committee may authorize the investment manager to buy, sell, exchange, convert and otherwise trade any stocks, or other securities, and may establish and execute securities transactions through accounts with such brokers or dealers as it may select and within the constraints of the guidelines set forth in this policy.

## C. University Management

The Vice President of Finance has responsibility for administration of the Fund's investment portfolio and will consult with the Committee and/or the Board on all matters relating to the investment of the portfolio. The Vice President of Finance will serve as the primary contact for the Fund's investment consultant and custodian.

## D. Investment Consultant

Northern Michigan may choose to hire an investment consultant. Investment advice concerning the management of investment assets will be offered by the investment consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the investment consultant would include items such as assisting in the development and periodic review of the investment policy and the asset allocation strategy, conducting investment manager searches when determined appropriate by the investment consultant and monitoring the performance of the investment manager(s) to provide University Management and/or the Committee with the ability to determine the progress toward the investment objectives. With respect to the investment manager review/monitoring process, the investment consultant will notify University Management if an investment manager experiences a material adverse change as soon as practical.

## E. Investment Custodian

Northern Michigan may hire a custodian for the Endowment Fund's investments to establish and maintain direct account relationships with each investment manager and perform standard

custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds for maturing securities, distribution of income and daily investment of cash. The custodian will provide monthly account statements and other reports as requested by staff and the investment consultant.

#### F. Investment Managers

Northern Michigan will delegate the selection, purchase and sale of individual securities to qualified industry experts. Each individual investment manager will exercise discretion over assets in accordance with specified investment guidelines.

Investment managers that utilize a separate account to manage Endowment Fund assets will adhere to specific investment manager guidelines established with the assistance of the investment consultant.

Investment managers that utilize a mutual fund, commingled trust fund or limited partnership structure will have discretion to manage the assets in accordance with policies and guidelines outlined in the respective mutual fund's prospectus, commingled fund's offering memorandum or limited partnership's private placement memorandum.

The investment managers shall communicate frequently and openly with Northern Michigan and/or Investment Consultant on all matters of significance regarding changes in management organization/structure.

#### IV. Investment Objectives

The following investment objectives have been established for the Endowment Fund:

1. Maintain the purchasing power of the Endowment while minimizing, to the greatest extent possible, the possibility of a significant loss of principal.
2. Earn a rate of return that will allow for growth of the Endowment Fund corpus after the impact of inflation, administrative/investment expenses, and spending.
3. Seek to maintain a sufficient degree of flexibility in order to meet unanticipated liquidity demands and respond to changing economic conditions.

#### V. Spending Policy

The Northern Michigan University Endowment Fund seeks to provide a reliable source of income to be used in a manner consistent with the donor's stated interests and Northern Michigan University's desire to provide quality service. Endowment principle will not be spent without specific approval of the Board.

The distribution rate is based upon a total return approach, which utilizes both income and capital appreciation to be withdrawn for spending. The maximum allowable spending amount for the General Endowment shall be up to 5% of the previous twelve-quarter average of the Portfolio's

market value. The formula shall be applied to the twelve quarters ending each fiscal year (June 30th). The formula will be weighted as follows:

25% weighting on the earliest 4 Quarters of Market Values

35% weighting on the next 4 Quarters of Market Values

40% weighting on the latest 4 Quarters of Market Values

Any gifts or additional deposits received during the last valuation period will be added to the prior quarter's market values in order to be given full weight in the payout calculation.

Distributions from the Endowment Funds in excess of the amount established above shall be made only with the approval of the Board.

## VI. Investment Policies

### A. Time Horizon

The Endowment Fund has a long-term investment horizon and can allocate assets accordingly. It is recognized that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Endowment Fund's investment performance.

### B. Diversification

To achieve its investment objective, the Endowment Fund will be allocated among a number of assets to ensure proper diversification. Investment diversification is important to limit risks that include return volatility and magnitude of potential losses. Equity investments will be diversified by market capitalization, style, industry and geographic region. Fixed income investments will be diversified by market sector, maturity, credit quality and issuer.

### C. Risk

Risk management of the investment program is focused on understanding both the investment and operational risks to which the University is exposed. The objective is to minimize operational risks and require appropriate compensation for investment risks, which the University is willing to accept.

#### D. Stock Donations

In the case of stock donations, the general practice is to liquidate the stock shares into cash in a reasonably short time frame after being received. That said, donor intent shall be respected when decisions are made related to the stock gift.

#### E. Rebalancing

Northern Michigan intends to maintain the asset class allocations within the target ranges outlined below. Allocations will be reviewed quarterly and will generally be rebalanced if any asset class is outside its range.

#### F. Asset Allocation

Based upon the underlying needs and circumstances of the Endowment Fund, Northern Michigan has determined the following asset allocation targets:

<b>Asset Class</b>	<b>Target</b>	<b>Range</b>
Large Cap Equity	20%	15%-25%
Global Equity	50%	40%-60%
<i>Total Capital Appreciation</i>	70%	60%-80%
Intermediate-Term Fixed Income	30%	20%-40%
<i>Total Capital Preservation</i>	30%	20%-40%
<b>Total Portfolio</b>	100%	

1. Capital Appreciation Assets are meant to help grow the real value of the portfolio over time.
2. Capital Preservation Assets are meant to lower the return volatility of the portfolio, provide diversification and stability, especially during periods of weak equity markets.

#### G. Sustainability

Northern Michigan is committed to promoting sustainable investments when selecting investments in the Endowment Fund. The Committee understands that sustainability aligns with the University's core values and may consider sustainability when selecting investments. At the same time, maximizing the return on the Endowment Fund is the primary fiduciary responsibility.

To satisfy these priorities, the Board of Trustees has adopted the following guidelines:

1. The Endowment Fund will divest from direct or indirect ownership in companies involved in the extraction, production, and distribution of fossil fuels by 2028.

## VII. Implementation & Evaluation

Long-term objectives have been established against which the performance of the investment policy is to be measured. Because the capital markets fluctuate, the viability of the asset allocation is to be judged over a period of a full market cycle.

A. Total Endowment Fund performance will be measured against:

1. A primary market benchmark, which is a policy benchmark consisting of passive indices reflecting the University's strategic target asset allocation percentages for each pool of capital. (*A description of the indices used for the policy benchmark can be found in Appendix A.*)
2. An absolute return benchmark that seeks to exceed the consumer price index (CPI) + 5%.
3. A peer group universe of comparable asset size.

B. Investment Manager Performance

It is the intent to hire investment managers specializing in market segments to achieve the target asset allocation. Each manager is closely reviewed to ensure the investment process remains consistent and the organization remains stable. Any deviations of such qualitative factors will be brought to Northern Michigan's attention by the investment consultant for further review. The University seeks to attain investment results over a full market cycle. Northern Michigan understands that an investment manager's total return during any single measurement period may deviate from the long-term return objective.

The individual manager's investment performance will be measured against:

1. The manager's specific passive index identified in the investment manager guidelines (*see Appendix A for detailed information*).
2. A peer group universe of similar investment styles.

It is expected within each asset class that actively managed investment strategies should match or exceed the passive index (net of fees) and should be above median against the appropriate peer group universe over a full market cycle. Passively managed strategies should closely track the performance of their relevant benchmarks.

## Appendix A

### ASSET ALLOCATION GUIDELINES

Investment management of the assets shall be in accordance with the following asset allocation guidelines.

#### Aggregate Asset Allocation Guidelines

<b>Asset Class</b>	<b>Policy Benchmark</b>	<b>Target</b>	<b>Allowable Ranges</b>
<i>Capital Appreciation Assets</i>			
U.S. Equity	S&P 500 Index	20%	+/-5%
Large Cap Global Equity	MSCI ACWI Index	35%	+/-5%
Small Cap Global Equity	MSCI ACWI Small Index	15%	+/-5%
<b><i>Total Capital Appreciation</i></b>		<b>70%</b>	<b>+/-10%</b>
<i>Capital Preservation Assets</i>			
Intermediate Fixed Income	Bloomberg Barclays U.S. Aggregate Index	30%	+/-10%
<b><i>Total Capital Preservation</i></b>		<b>30%</b>	<b>+/-10%</b>

## Appendix B

### INVESTMENT MANAGER EVALUATION CRITERIA

The following criteria are used to evaluate investment managers. Northern Michigan may choose to override these criteria upon agreement.

1. The performance and portfolio data submitted by investment managers should be audited by a third party to ensure compliance with the Global Investment Performance Standards (GIPS) published by the CFA Institute or subjected to other appropriate standards. In reviewing such data, the Investment Consultant may rely upon the veracity of such data. This is intended to reduce risk of a poor selection based upon incorrect or misleading data.
2. The performance records submitted must be of sufficient duration to include a variety of economic and market environments. In general, a five-year performance history is deemed to be the minimum acceptable history.
3. Actively managed investment managers must demonstrate a sufficient record of performance superiority after fees over the average manager in their investment style.
4. Actively managed investment managers must demonstrate a sufficient record of performance superiority after fees over managers with similar risk characteristics (i.e. appropriate passive indexes, style universes, etc.).
5. Passive manager candidates must exhibit a sufficient record of approximating the appropriate market benchmark with limited tracking error.
6. Investment managers must exhibit a consistent investment style and risk profile as defined by the aggregate financial characteristics of the portfolio over a number of measurement periods.
7. Investment managers must demonstrate organizational stability and provide evidence indicating that the people, resources and other factors responsible for past superior investment results are still in place. Such evidence increases the probability that past success will be repeated in the future.
8. Minority owned investment managers shall be considered in each manager selection process. They will be upheld to the same standards as all other investment managers.
9. Investment managers must be completely independent from the investment consultant. The investment manager and the investment consultant seek to avoid all potential conflicts of interest. There should be no shared economic interests between the two parties.