

Investment Policy Statement

For

North Dakota State University Foundation

Endowment

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## Introduction

The North Dakota State University Foundation (the “Foundation”) acquires, holds and manages assets for the benefit of North Dakota State University. The Foundation Executive Governing Board (the “Board”) has a fiduciary responsibility to the Foundation’s donors and, in some instances, to the University to manage the assets (hold the principal in safekeeping, earn income and increase the principal value through appreciation) in a prudent fashion.

This policy statement provides a framework for the management of the endowed assets of the NDSU Foundation (the “Endowment”). Its purpose is to assist the Board in effectively supervising and monitoring the investments of the Endowment. The guidelines are designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time establishing reasonable risk control parameters to ensure prudence and care in the execution of the investment program.

The management of the assets is expected to adhere to the following basic fiduciary responsibilities:

- ❑ Oversight will occur with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims.
- ❑ Investments of the assets will be diversified so that the risk of loss will be no greater than required to achieve the target rate of return, unless under the circumstances it is clearly prudent to depart from that objective. Diversification is applicable to the deployment of the assets as a whole.

The document below addresses the following issues:

- ❑ The objectives of the Foundation and the Endowment investment program.
- ❑ The investment strategy including specific asset allocations, rebalancing procedures and investment guidelines.
- ❑ The Foundation’s spending policy.
- ❑ The roles and responsibilities of those parties charged with overseeing or managing the Endowment.

# Goals and Objectives

## ***Objective of the Policy***

The objective of this investment policy is to ensure that the future growth of endowed Foundation assets is sufficient to offset normal inflation plus reasonable spending, thereby preserving the real dollar value and purchasing power of the Endowment. This will be accomplished through a carefully planned and executed long-term investment program.

## ***Objective of the Investment Program***

The objective of the investment program is to maximize total return, consistent with current income requirements and an appropriate degree of risk.

## ***Performance Goals***

On an annualized, net-of-fees basis, the return on the total investment portfolio over the long term (at least a full market cycle) will be expected to:

- Equal or exceed the spending rate plus inflation over a market cycle; and,
- Equal or exceed the average return of appropriate capital market indices weighted by the asset allocation target percentages (as defined in the section “*Investment Program Strategy*”) over rolling five-year periods.

Performance goals are based upon a long-term investment horizon; therefore, interim fluctuations should be viewed with appropriate perspective.

## ***Investment Philosophy***

The Endowment has a long-term investment horizon, and its assets are allocated accordingly. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Endowment’s investment performance.

The assets will be managed on a total return basis.

While the policy demands the preservation of capital, it also recognizes the principle that varying degrees of investment risk are generally rewarded with compensating returns. It is not a breach of fiduciary responsibility to pursue riskier investment strategies if anticipated returns justify the risk.

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

# Investment Program Policies

## ***Investment Program Policy***

It is the policy of the investment program to invest according to an asset allocation strategy that is designed to meet the objectives of the Foundation. The policy will be based on a number of factors, including:

- ❑ The projected spending needs;
- ❑ The maintenance of sufficient liquidity to meet spending payments;
- ❑ Historical and expected long-term capital market risk and return behaviors;
- ❑ The relationship between current and projected assets of the Endowment and its spending requirements.

This policy provides for diversification of assets in an effort to maximize the investment return and manage risk consistent with market conditions. Asset allocation modeling identifies asset classes the Investment Committee will use and the percentage each class represents in the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur.

## ***Investment Strategy***

As a result of the above process, the Investment Committee has adopted the asset allocation targets and ranges shown in Attachment A for the Endowment, exclusive of amounts transferred to the Endowment's spendable account.

The Investment Committee will implement the investment program within the constraints of this asset allocation policy through the use of qualified external professional investment managers. The external investment managers will have full discretion and authority for determining investment strategy, security selection and timing subject to policy guidelines and any other guidelines specific to their portfolio.

## ***Rebalance Policy***

The asset allocation established by this Investment Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature.

To ensure divergence from the target policy is within acceptable limits, rebalancing of assets may be necessary. Rebalancing procedures are authorized in accordance with the Investment Management Agreement and are implemented by the Investment Manager.

Rebalancing among funds will occur to ensure that the target asset allocation specified in this Investment Policy is maintained within acceptable ranges as determined by the Investment Manager. The Investment Manager will identify the amount of assets that must be reallocated in order to bring the Fund back into compliance with this Investment Policy and will issue the necessary instructions for the transfer of funds.

SEI Investments may not execute rebalancing that would result in a new commitment to an illiquid investment program or an allocation outside of the guidelines in this policy statement without the prior approval of the Investment Committee. The rebalancing process will be consistent with the executed investment agreement between the Foundation and SEI Investments.

### ***Spending Policy***

The Foundation determines its endowment spending by using a 12-quarter moving average market value and spending rate target range of 4.0%-4.5%.

### **Asset Class Definitions**

#### ***Investment Securities, Strategies and Diversification***

As described in the Investment Management Agreement, the Investment Manager implements this Investment Policy through pooled investment vehicles, including mutual fund products, separate managed accounts, collective investment trust funds, and/or other alternative fund products (the "SEI Funds"). The principal investment objectives and strategies of the SEI Funds can be found in the Fund's prospectus, offering documents, and related fund fact sheets which govern and control any SEI Fund's objective, strategy and permitted investments.

It is the responsibility of the Investment Manager to provide a prospectus (or other offering documents) for each investment and the responsibility of the Committee to read and understand the information contained in the prospectus. Investment Manager will provide additional copies of mutual fund prospectuses, other offering documents or fact sheets upon request.

#### ***Equity Securities***

The purpose of equity investments, both domestic and international, in the plan is to provide capital appreciation, growth of income, and current income, with the recognition that this asset class carries with it the assumption of greater market volatility and greater risk of loss than some of the other asset classes. This component includes domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the-counter markets as well as private and venture capital and distressed debt investments. Donated equity securities will be promptly sold, subject to being able to make a reasonable sale

## ***Fixed Income Securities***

The purpose of fixed income investments, both domestic and international, is to provide diversification, and a predictable and dependent source of current income. It is expected that fixed income investments will not be totally dedicated to the long-term bond market, but will be flexibly allocated among maturities of different lengths according to interest rate prospects. Fixed instruments should reduce the overall volatility of the Endowment's assets, and provide a deflation hedge. This component includes both the domestic fixed income market and the markets of the world's other developed economies. It includes but is not limited to U.S. Treasury and government agency bonds, foreign government and supranational debt, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Fixed income also includes money market instruments, including, but not limited to, commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations. Contracts for deed and leases shall also be considered to be part of the fixed income portfolio.

## ***Cash and Equivalents***

Investment managers may invest in the highest quality commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the Endowment's principal value. Commercial paper assets must be rated at least A1 or P-1 (by Moody's or S&P).

## ***Other Securities***

Private Capital Partnerships - Investments may also include domestic and international venture capital and private equity investments, 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 also include equity real estate, held in the form of professionally managed, income producing commercial and residential property, local real estate, acquired to provide control and long-term development of areas adjacent to the University, and contracts for deed from the sale of donated real estate. Investments may also include publicly traded REITS.

Natural Resources - Investments may also include oil, gas, and timber investments, held in the form of professionally managed pooled limited partnership investments. Such investments must be made through funds offered by professional investment managers. Investments may also include publicly traded natural resource, master limited partnerships and infrastructure equities.

Distressed Debt - Investments may also include domestic and international distressed debt investments (both liquid trading opportunities as well as illiquid control strategies), held in the form of professionally managed pooled limited partnership investments.

Commodities - Investments may also include a broad range of commodity oriented strategies. These strategies will include but may not be limited to futures, options on futures and forward contracts on exchange traded agricultural goods, metals, minerals, energy products and foreign currencies. The use of swap transactions will be permitted to access

this market strategy. Investments may be held in the form of professionally managed pooled funds, segregated and limited liability or corporate investments.

Marketable Alternatives - Investments may also include equity-oriented or market-neutral hedge funds (i.e. Long/Short, Macro Event Driven, Convertible Arbitrage, and Fixed Income strategies) 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.

Derivatives and Derivative Securities - Certain of the Endowment's managers may be permitted under the terms of their specific investment guidelines to use derivative instruments. Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include (but are not limited to) futures, forwards, options, options on futures, warrants, and interest-only and principal-only strips. No derivative positions can be established that create portfolio characteristics outside of portfolio guidelines. Examples of appropriate applications of derivative strategies include hedging market, interest rate, or currency risk, maintaining exposure to a desired asset class while making asset allocation changes, gaining exposure to an asset class when it is more cost-effective than the cash markets, and adjusting duration within a fixed income portfolio. Derivatives positions should be fully collateralized. Investment managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

Each manager using derivatives shall (1) exhibit expertise and experience in utilizing such products; (2) demonstrate that such usage is strategically integral to their security selection, risk management, or investment processes; and (3) demonstrate acceptable internal controls regarding these investments.

### ***Restrictions***

The Investment Committee is authorized to waive or modify any of the restrictions in these guidelines in appropriate circumstances. Any such waiver or modification will be made only after a thorough review of the manager and the investment strategy involved. Documentation supporting all waivers and modifications will be maintained as part of the permanent records of the Investment Committee. All waivers and modifications will be reported to the Board at the meeting immediately following the granting of the waiver or modification.

## **Roles and Responsibilities**

### ***Duties of the Executive Governing Board***

In the management of the Foundation's endowed assets, the Board or its designate(s) will:

- Appoint an Investment Committee consisting of at least five, but not more than twelve members (including the Chair). The Foundation's President/CEO and CFO will serve as ex officio, non-voting members.



- ❑ Approve the Investment Policy developed by the Investment Committee. The Board in its sole discretion can delegate its decision-making authority regarding the investment program.
- ❑ Review at least annually investment performance on both an absolute basis and relative to appropriate benchmarks as developed and monitored by the Investment Committee.
- ❑ Review, with assistance from the Investment Committee, at least annually the Endowment's investment structure and financial performance. The review will include recommended adjustments to the long-term, strategic asset allocation plan, if adjustments are warranted.

### ***Duties of the Investment Committee and Management***

In the management of Endowment assets, the Investment Committee and Management (defined as the President/CEO and CFO) will:

- ❑ Meet semi-annually just prior to each Board meeting and at the call of the Committee Chair. Meetings may be by tele-conference. Meeting minutes, including instructions to staff, will be distributed to all committee members.
- ❑ Select, retain and terminate external investment managers as necessary to invest the Endowment's assets. The CFO is authorized to act singly, as a named fiduciary, to fund a spendable account of the Endowment as frequently and in an amount as the President/CEO and CFO may determine.
- ❑ Select, retain, and terminate investment consultants as necessary to conduct performance review, asset allocation, manager review and selection, and topical research. The comments and recommendations of the consultants will be considered in conjunction with other available information to aid the Investment Committee in making informed, prudent decisions.
- ❑ Recommend an annual spending allocation to the Board.
- ❑ Have discretion to develop and execute the Endowment's investment program within the constraints of these guidelines. Staff will be responsible for the timely implementation and administration of these decisions.
- ❑ Execute any documents necessary to facilitate implementation of this policy, including but not limited to contracts with consultants and investment managers for providing services. The President/CEO and the CFO are each authorized, singly, in this capacity.
- ❑ Review formally the Endowment's investment policy, structure and financial performance at least annually. The review will include recommended adjustments to the long-term, strategic asset allocation plan, if adjustments are warranted.
- ❑ Conduct an asset allocation study at least every 3 to 5 years, and revise, if necessary, the Endowment's investment policy.

- ❑ Review the Endowment's investments at least quarterly to ensure that policy guidelines continue to be met. The Committee or its staff shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks. The Committee or its staff shall also monitor portfolio characteristics and portfolio attribution to ensure managers are managing to their stated style. The information for these reviews shall come from staff, outside consultants, the custodian, and the Endowment's investment managers.
- ❑ Investment performance will be monitored against these guidelines. Each investment manager will manage its portfolio according to a formal contract that delineates its responsibilities and appropriate performance expectations.
- ❑ Be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for portfolios managed by external managers will focus on:
  - Material changes in the managers' organizations, such as investment philosophy or process, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Investment Committee advised of any material changes in personnel, process, investment strategy, or other pertinent information potentially affecting performance.
  - Investment performance relative to each manager's stated performance benchmark(s) as set forth in the Investment Manager Guidelines.
- ❑ Administer the Endowment's investments in a cost-effective manner. These costs include, but are not limited to: management, consulting and custodial fees, transaction costs and other administrative costs chargeable to the Endowment or to the Foundation.
- ❑ Be responsible for selecting a qualified custodian.
- ❑ Maintain a quarterly summary of investment activity.
- ❑ Provide for the collection and investment of contributions and investment income, and the payment of expenditures for the management of the Endowment.

***Duties of Outsourced Chief Investment Officer (OCIO)***

The Committee may utilize an advisor to advise and assist the Committee in the discharge of its duties and responsibilities. SEI Investments will provide advisory services as defined by a written investment agreement. In the advisory capacity, SEI Investments will:

- ❑ Assist in establishing investment policies, objectives, and guidelines.
- ❑ Recommend investment funds in accordance to the Policy and periodically review such funds.

- ❑ Rebalance the portfolio to maintain the proper diversification within the ranges approved by the Investment Committee and in accordance to the guidelines established in the rebalancing policy of this document
- ❑ Review the Foundation's investments at least monthly to ensure that policy guidelines continue to be met.
- ❑ Monitor investment returns on both an absolute basis and relative to appropriate benchmarks. Provide reports to Management and the Committee on a quarterly basis. Also included will be a complete accounting of all transactions involving the Foundation during the quarter, together with a statement of beginning market value, fees, capital appreciation, income and ending market value, for each asset class.

Report performance in accordance to the Endowment's Performance Goals as highlighted at the beginning of this policy.

SEI Investments will serve as the Investment Manager and in such capacity select, retain and terminate fund managers ("subadvisors") as necessary to execute the strategies of its investment programs. SEI Investments will have discretion to develop and execute the investment program within the constraints of the guidelines for each program. SEI Investments will be responsible for the timely implementation and administration of these decisions.

The Investment Manager will, at a minimum:

- ❑ Comply with "prudent expert" standards.
- ❑ Know and comply with the policies as outlined in this document. It is the Investment Manager's responsibility to identify policies that may have an adverse impact on performance, and to initiate discussion with Management or its staff toward possible improvement of those policies.
- ❑ Maintain thorough and appropriate written risk control policies and procedures.
- ❑ Reconcile every month accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian.
- ❑ Maintain frequent and open communication with Management and its staff, as well as the Investment Committee, on all significant matters pertaining to the investment policy, including, but not limited to, the following:
  - Major changes in the Investment Manager's investment outlook, investment strategy, investment process, subadvisors or portfolio structure;
  - Significant changes in ownership, organizational structure, financial condition or senior personnel;
  - All pertinent issues which the Investment Manager deems to be of significant interest or material importance;

- Meet with Management or its designees on an as-needed basis.
- Develop Investment Manager Guidelines and Benchmark Statements, including performance objectives, for each manager.

Approved by:

Executive Governing Board: July 12, 2018

Investment Committee: April 18, 2018; Update to Attachment A April 29, 2021

Effective Date: July 12, 2018

Responsible Department: Finance and Operations

Approval History:

Executive Governing Board: September 30, 2016

Investment Committee: September 29, 2016, Update to Attachment A April 29, 2021

Revision History:

- 4/29/21 AP – Updated Attachment A target ranges; Updated Legal Name
- 7/20/18 AP – Approved changes to spending rate calculation
- 10/3/17 AP – Housekeeping items (Spending rate calculation clarification)

**North Dakota State University Foundation  
Investment Policy Statement  
Attachment A**

*Approved by the Investment Committee: April 29, 2021*

**Target Asset Strategies Table**

	<u>Min Wt.</u>	<u>Target Wt.</u>	<u>Max Wt.</u>	<u>Representative Index</u>
<b>Public Equity Strategies</b>	<b>25%</b>	<b>37%</b>	<b>65%</b>	
US Large Cap Equity	10%	12%	25%	Russell 1000 Index
US Small Cap Equity	0%	3%	10%	Russell 2000 Index
World Equity ex-US	5%	14%	18%	MSCI ACWI ex US
Emerging Markets Equity	0%	3%	8%	MSCI Emg & Frontier IX
Dynamic Asset Allocation	0%	5%	10%	S&P 500 Index
<b>Fixed Income</b>	<b>15%</b>	<b>17%</b>	<b>25%</b>	
US High Yield	0%	3%	10%	ML High Yld Master
Core Bonds	5%	8%	15%	Barclays Aggregate
Emerging Markets Bonds	0%	3%	8%	50% JPM EMBI/50% GBI-EM
Limited Duration Bonds	0%	3%	10%	BofA ML 3 Mo Dep Off CM IX
<b>Alternative Strategies</b>	<b>0%</b>	<b>40%</b>	<b>50%</b>	
SPC Customized Hedge	0%	15%	20%	50% MSCI ACWI/50% BofA T-Bill
Private Assets*	0%	25%	30%	MSCI ACWI + 3% (lagged)
<b>Inflation Hedge/Real Assets</b>	<b>0%</b>	<b>6%</b>	<b>10%</b>	
Multi-Asset Real Return Fund	0%	6%	10%	Barclays 1-5Y US Tips

*\*Illiquid Target = 25%*

**Policy Benchmark**

*Comprised of Target Weights to each Representative Index Above*

**Traditional Benchmark**

MSCI All Country	76%
Barclays Aggregate	24%

**Long Term Benchmark**

CPI +5%	100%
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