

# DSU Heritage Foundation

## Financial Policy and Procedures

Investment Management, Benchmarks, Fund Manager Responsibilities, Spending Policy

### Statement of Intent, Objectives, and Guidelines and Spending Policy

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#### SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the policy, objectives, and constraints of the entire DSU Heritage Foundation.

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#### PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Investment Committee under the direction of the Board of Directors of the DSU Heritage Foundation in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
4. Provide benchmarks for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish guidelines for annual spending.

In general, the purpose of this statement is to outline a philosophy and attitude that will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practicable.

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#### DELEGATION OF AUTHORITY

The Investment Committee, under the direction of the Board of Directors of the DSU Heritage Foundation, is the fiduciary committee and is responsible for directing and monitoring the investment management of Fund assets. As such, the Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields (These include but are not limited to Investment Manager(s). The Investment Manager(s) has discretion to purchase, sell, and/or hold the specific securities that will be used to meet the Fund's investment objectives within the guidelines set forth in this document).

**The Investment Committee will not reserve any control over investment decisions, with the exception of specific limitations described in the statements. Investment Manager(s) will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper Investment Manager(s), each Investment Manager(s) should request modifications that it deems appropriate.**

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#### DEFINITIONS

1. "Fund" shall mean the investment assets of the DSU Heritage Foundation, which include endowed/permanently restricted net assets, current restricted/temporarily restricted net assets and current unrestricted/unrestricted net assets.
    - a. Permanently Restricted (Endowed) net assets—net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.
    - b. Temporarily Restricted net assets—net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.
    - c. Unrestricted net assets—net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for grants, and other purposes.
  2. "Investment Committee" is appointed annually by the board of directors and has responsibilities as defined in section IA.
  3. "Fiduciary" shall mean any individual, group of individuals or organization that exercise discretionary authority or control over Fund management or any authority or control over management, disposition or administration of the Fund assets and will hold the interests of the DSU Heritage Foundation above their own interests.
  4. "Investment Manager" shall mean any individual or group of individuals, employed to manage the investments of all or part of the Fund assets. See section IIA.
  5. A thorough review and solicitation of Investment Manager(s) will take place at least every four (4) years.
  6. "Securities" shall refer to the marketable investment securities, which are defined as acceptable in this statement.
  7. "Program Disbursements" shall refer to distributions from the Fund to provide funding for programs, scholarships, or projects.
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## ASSIGNMENT OF RESPONSIBILITY

### **IA. Responsibility of the Investment Committee of the DSU Heritage Foundation**

The Investment Committee is charged with the responsibility for the management of the assets of the Fund. The Investment Committee shall discharge its duties solely in the interest of the Fund, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the Investment Committee relating to the investment management of Fund assets include:

1. Projecting the Fund's financial needs and communicating such needs to the Investment Manager(s) on a timely basis.
2. Determining the Fund's risk tolerance and communicating these to the appropriate parties.
3. Establishing reasonable and consistent investment objectives, policies and guidelines, which will direct the investment of the Fund's assets.
4. Prudently and diligently selecting qualified investment professionals, including Investment Manager(s). A thorough review of Investment Manager(s) to take place every four years.
5. Regularly evaluating the performances of the Investment Manager(s) against established benchmarks to assure adherence to policy guidelines and monitor investment objective progress.
6. Developing and enacting proper control procedures: For example, replacing Investment Manager(s) due to fundamental change in investment management process, or failure to comply with established guidelines.
7. Reporting to the Board of Directors on the investment performance and financial condition of the Fund.
8. Meeting at least bi-annually with Investment Manager(s).
9. The Investment Committee's recommendation to the Board of Directors on the selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Investment Committee requires that each Investment Manager provide, in writing, acknowledgement of fiduciary responsibility to the Fund on an annual basis.

10. The Investment Committee recommends the overall expenditures of the Foundation ensuring compliance with donor restrictions.
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## **IIA. Responsibility of the Investment Manager(s)**

Each Investment Manager(s) must acknowledge in writing its acceptance of responsibility as Fiduciary. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Providing monthly and quarterly accounting of all investment transactions.
3. Reporting quarterly investment performance compared to established benchmarks.
4. Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
5. Informing the Investment Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc...

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## **GENERAL INVESTMENT PRICIPLES**

1. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
  2. Investment of the Fund shall be sufficiently diversified.
  3. The Investment Committee may employ one or more Investment Manager(s) of varying styles and philosophies to attain the Fund's objectives.
  4. Cash is to be employed productively at all times to provide safety, liquidity, and acceptable rate of return.
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## GOAL OF FUND

The Investment Committee recommends that Program Disbursements to be made in the future are as important as Programs Disbursement made today. This is consistent with the philosophy that this fund is to exist in perpetuity and therefore, should provide for program disbursements in perpetuity. To attain this goal, the overriding objective of this fund is to maintain purchasing power. That is, net of program disbursements and operating expenses, the objective is to grow the aggregate portfolio value at the rate of inflation plus a minimum of .5% annually.

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## ATTITUDE TOWARD GIFTS

Future giving (contributions) to this Fund is expected to be inconsistent, and therefore, unpredictable. As a result, the Investment Committee has set an investment strategy with the objective of maintaining purchasing power of Fund assets before consideration of gifts. Accordingly, future giving will serve to increase purchasing power.

## SPENDING POLICY

### Endowment Spending

The Spending Policy establishes a reasonable and prudent spending level for the fund. The primary objective is to determine how much can be spent currently, and how much to invest to preserve future spending. Distributions for spending from endowment funds each fiscal year will be calculated once annually with the quarter ending December 31<sup>st</sup>. All endowment funds in existence on December 31<sup>st</sup> for one year will receive a distribution spending allocation. The distribution calculation will use a rolling average of the past three calendar year's market values.

If the endowment is considered to be "Qualified" which, by definition, has \$25,000 as the Corpus, the endowment will be eligible for spending allocation distribution based upon a three-year rolling average. At no time can the Corpus be taken to pay any scholarships or fees.

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## ANNUAL SPENDING POLICY

- **Endowed Program Disbursement-(up to)**                      **4.0%**

### Fees

- **Investment Management Fee**    **0.5%**
- **DSUHF Management Fee**    **1.5%**

- **ANNUAL SPENDING- (up to)**    **6.0%**

This rate may be adjusted with a 2/3 majority vote of the entire board of directors.

## Current Restricted and Current Unrestricted Spending

### Restricted Asset Spending

DSU Heritage Foundation may not pledge as collateral, grant a security interest, or borrow from assets designated as permanently restricted. This is in accordance with Senate bill No. 2276 referring to the use of restricted assets.

The DSU Heritage Foundation also follows the guidelines set forth by UPMIFA (the Uniform Prudent Management of Institutional Funds Act). A standard accepted by non-profits across the country.

Temporarily Restricted and Un-restricted spending will be based upon the recommendation of the Investment Committee and the approval of the overall board.

1. Spending from these funds should consider current fund balances and projected program disbursements.
2. All earnings from these funds will be used as a management fee.

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## INVESTMENT BENCHMARKS

The Board directs the Investment Committee to review the investment managers' investment results utilizing the total rate of return method, which includes the measurement of interest, dividends, and realized and unrealized capital gains and losses based upon the following benchmarks.

### Benchmark

30% - S&P 500  
 11% - Russell MidCap  
 6% - Russell 2000 (Small Cap)  
 13% MSCI ACWI ex US (International)

### Bond Benchmark

38% - Barclay's Intermediate Gov./Corp.

### Cash Equivalent Benchmark

2% - US Treasury 3-month T-Bills

To ensure consistent and comparable analysis, each investment manager is to utilize the standards set forth by GIPS standards. For time-weighted rate of return, each manager is to use the Daily Valuation Method. Material deviations from the benchmark either higher or lower shall be explained by the Investment Manager(s) report.

The Board and Investment Committee recognize that the capital markets are dynamic and that any statement of guidelines and objectives prepared at any one time may not be totally appropriate, applicable, and meaningful at various times in the future. For evaluating relative total return performance, the Investment Committee shall emphasize a long-term time horizon. Whenever an investment manager believes that a particular guideline is too liberal or too

restrictive, or should be altered or deleted, it is the responsibility of the investment manager to initiate communication first with the Investment Committee and then the Board of Directors.

## LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Investment Committee will annually provide Investment Manager(s) with an estimate of expected net cash flow. The Investment Committee will notify the Investment Manager(s) in a timely manner, to allow sufficient time to build up necessary liquid reserves.

## MARKETABILITY OF ASSETS

The Investment Committee requires that all Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

## INVESTMENT OBJECTIVES AND GUIDELINES

### INVESTMENT GUIDELINES

#### A. PORTFOLIO ALLOCATION

Academic research suggests that the decision to allocate assets among various classes will far outweigh security selection and other decisions that impact portfolio performance. After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risks and rewards of market behavior, the asset classes shown below were selected to achieve the objective of the Fund. No guarantees can be given about future performances, and this Investment Policy Statement shall not be constructed as offering such a guarantee.

The portfolio class targets and ranges show the approved investment level associated with the Fund's investment objectives. Within each of these asset categories, sub asset classes and strategies, which are expected to act and react in combination, will be used. The portion of the Fund invested in each sub-class and strategy will change periodically to reflect Investment Advisor's tactical investment policy so long as it is within the acceptable ranges listed. Any proposed investment changes outside these ranges must be approved by the Foundation in writing prior to being implemented. The Fund may be invested in a "core and satellite" structure utilizing passive investment strategies in efficient markets and active, alpha seeking strategies in less efficient markets.

	Target	Lower Limit	Upper Limit
TRADITIONAL			
Equity	61.5%	40%	70%
Domestic Large Cap Equity	35.0%	20%	50%
Domestic Mid Cap Equity	11%	0%	15%
Domestic Small Cap Equity	4.7%	0%	15%
International Equity	5.8%	0%	30%
Emerging Markets	2.0%	0%	15%
Real Estate	1.0%	0%	15%

Commodities	2.0%	0%	15%
Fixed Income	38.5%	20%	50%
Investment Grade Fixed Income	27.2%	20%	50%
High Yield Fixed Income	8.0%	0%	15%
International Fixed Income	5.0%	0%	15%
Short Term Bonds	5.0%	0%	15%
TIPS	2.0%	0%	15%
Cash Reserve	2.0%	0%	20%

\*May not sum to subtotals and totals due to rounding.

All current temporarily restricted and unrestricted funds to be invested in vehicles that guarantee the return of principal.

### **INVESTMENT MANAGEMENT POLICY**

The Foundation's Board of Directors shall monitor and review the investment management of the assets of the Foundation, subject to any restrictions imposed by donors or grantors. The Investment Committee shall hold formal meetings with the investment managers at least bi-annually and shall review the investment results of the individual trusts and investment matters with the entire Board of Directors. In the event that the investment managers feel it appropriate, they shall call special meetings to consult with the Board's Investment Committee regarding major changes in investment outlook, investment strategy, and other matters affecting general investment policy.

The assets of the Foundation shall be invested by the Investment Manager(s) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in a like capacity and familiar with such matters would use in investment of assets of institutions of like character and kind. The Investment Manager(s) shall also make investment decisions within the parameters of the Foundation's Declaration of Trust and the investment policy guidelines as issued by the Board from time to time.

### **INVESTMENT MANAGEMENT GUIDELINES**

Each investment manager shall maintain a diversified portfolio for Foundation accounts. The Investment Committee has the right to adjust Asset Allocation limits at any time. The Committee will review the entire portfolio holdings of the DSU Foundation to insure that we are within the Portfolio Allocation limits of this policy. Diversification shall be maintained by ascertaining that:

1. The investment vehicle for equities shall be mutual funds, exchange traded funds (aka ETF's), and other suitable investments as determined by Investment Committee or Board of Directors. The investment manager may invest in any one fund and ETFs, which invests in the stocks of domestic and/or foreign countries and does not charge a front or backend load. No more than 15%.
2. The fixed income portfolio must maintain an overall weighted average credit quality rating of Baa or better by Moody's or BBB or better by Standard & Poor's rating services, respectively. However, at the discretion of the Manager, up to 15% of the portfolio may

be invested in fixed income securities or high yield funds rated below investment grade (Baa/BBB) including bank loans, non-dollar securities and emerging market debt. If Moody's and Standard & Poor's disagree on credit ratings of specific issues in the portfolio, the fixed income manager may use the higher of these ratings for purpose of determining compliance.

3. The fixed income manager will be expected to maintain the portfolio duration between 80% and 120% of the duration of the Barclays Capital Intermediate Index.
4. Individual fixed income securities be rated single A or better;
5. Dividends, earnings, and realized gains will be reinvested.

The limitations listed above do not apply to securities of the U.S. Government or any agencies thereof, or to investments in commingled funds, mutual funds, or ETF's. The Investment Committee reserves the right to approve deviations or exceptions to individual account holdings including real estate and closely held corporations.

The investment managers are expected to avoid investing Foundation assets in venture capital companies or in securities of companies which have not been in existence for a sufficient period of time to develop a track record allowing a prudent investor to determine their probable worth. No investments shall be made in letter stock, private placements, short positions (except the sale of stock index futures,) commodities or oil and gas exploration contracts without prior authorization of the Investment Committee.

Any fee reimbursement or other remuneration paid by a mutual fund to trustees, investment managers, or other individuals or companies involved in the investment of Foundation assets must be disclosed in writing prior to the investment of Foundation assets with such fund. Any such remuneration must be specifically authorized in writing by the Foundation Board.

#### **INVESTMENT MANAGER (S) PERFORMANCE REVIEW AND EVALUATION**

Performance reports generated by the Investment Manager(s) shall be compiled quarterly and communicated to the Investment Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against established performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Investment Committee intends to evaluate the portfolio(s) over at least a three to four-year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance, which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to the stated of Investment Policy and Practices, including communication and reporting requirements.
3. Failure to adhere to the stated Investment Policy and Practices on investment management discipline.
4. Significant qualitative changes to the investment management organization.

Investment Manager(s) shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

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## INVESTMENT POLICY REVIEW

To ensure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Investment Committee **must** review the investment policy at least annually.

This policy has been reviewed and approved by:

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 President, Bruce Dolezal  
 On behalf of the  
 Dickinson State University Heritage Foundation

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 Chair, James Schwartz  
 On behalf of the  
 Foundation Investment Committee

Drafted  
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 Approved on 12-2020