

# ROCHESTER INSTITUTE OF TECHNOLOGY

## Investment Policy

Revised and Approved March 12, 2020

### 1. Purpose

The financial objective of the endowment portfolio is to provide a sustainable level of income distribution in support of the University's mission while preserving the purchasing power of the remaining invested assets.

### 2. Statement of Return and Risk Objectives

#### Return Objective

Endowment assets are expected to generate a long-term average annual real return of at least 5%, plus an inflation factor, net of fees and expenses, which meet or exceed the endowment's authorized distribution in support of the University's mission.

The endowment portfolio is expected to attain average annual investment returns (net of fees) which exceed the policy index over a full investment cycle (generally a three- to five-year period).

#### Risk Objective

Based on the University's willingness and capacity to accept risk the endowment portfolio will seek the highest level of return with the lowest level of risk.

### 3. Roles and Responsibilities

The roles and responsibilities of the Endowment Committee (Committee), Investment Advisor(s) (Advisor(s)), and Sr. VP for Finance and Administration and Finance Staff (collectively "Staff") are discussed in detail in Appendix A.

### 4. Management and Investment Guidelines

These guidelines are consistent with prudent investor standards as well as the standards of the New York Prudent Management of Institutional Funds Act (NYPMIFA) adopted by New York State on September 17, 2010.

Subject to the intent of a donor expressed in any gift instrument, the University, in managing and investing the endowment portfolio, shall consider the mission of the University and the purposes of the endowment portfolio.

In addition to complying with the duty of loyalty imposed by law, each person responsible for the managing and investing of the University's endowment portfolio shall manage and invest in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances.

In managing and investing the endowment portfolio, the University may incur only costs that are appropriate and reasonable in relation to the assets, the mission of the University, and the skills available to the University and shall make a reasonable effort to verify the facts relevant to the management and investment of the portfolio.

The following factors, if relevant, must be considered when making endowment investment management decisions:

- a. general economic conditions;
- b. the possible effect of inflation or deflation;
- c. expected tax consequences, if any, of investment decisions or strategies;
- d. the role that each investment or course of action plays within the overall endowment portfolio;
- e. the expected total return from income and the appreciation of investments;
- f. other resources of the University;
- g. the needs of the University and the endowment to make distributions and to preserve capital; and
- h. an asset's special relationship or special value, if any, to the mission of the University.

Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the endowment portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the endowment and to the University.

The University shall diversify the investments of the endowment unless the University prudently determines that, because of special circumstances, the purposes of the endowment are better served without diversification. A decision not to diversify must be reviewed as frequently as circumstances require, but at least annually.

Within a reasonable time after receiving property designated for the endowment (i.e., real estate, public or private securities, etc.), the University shall make and carry out decisions concerning the retention or disposition of the property or to rebalance the portfolio, in order to bring the portfolio into compliance with the purposes, terms and distribution requirements of the University as necessary to meet other circumstances of the University and the requirements of NYPMIFA.

A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing the University's endowment portfolio.

## 5. Portfolio Overview

### a. Asset allocation, diversification and risk

The University's investment policy is based upon modern portfolio theory, which holds that diversification across asset classes (and across securities within asset classes) serves to reduce overall portfolio volatility (risk). In establishing the targeted asset allocation for the University's endowment portfolio, the various asset classes are analyzed based upon historical and expected rates of return, standard deviation and correlations among returns to achieve a combination of asset classes designed to maximize returns while minimizing volatility or risk. The portfolio's asset allocation is constructed to reflect its extremely long-term time horizon (in perpetuity). The use of diversification within the portfolio is designed to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the endowment. The targeted allocation is set forth in Appendix B. There are no special short-term cash flow or liquidity considerations.

### b. Performance measurement

The portfolio as a whole shall be reviewed by the Committee on a quarterly basis. Portfolio performance will be evaluated as set forth in the Statement of Return and Risk Objectives above. Appendix B sets forth the relevant market indices for each major asset class.

Individual funds will be monitored for return relative to objectives, consistency of investment philosophy and for investment risk. Net performance will be compared to the relevant market benchmark over time (i.e., one year, three years, five years, etc.). In addition, regular communication from managers concerning investment strategy and outlook is expected. Managers are required to inform the University of any material changes including, but not limited to, investment philosophy, firm ownership, portfolio manager, organizational structure, assets under management and/or account structure.

It is expected that separately managed accounts will outperform their respective asset class benchmarks, net of fees, over a full market cycle of three to five years.

### c. Rebalancing

The portfolio will be constructed to be at the targeted allocation set forth in Appendix B. The Committee has set forth acceptable ranges at +/- 15% of each asset class' targeted allocation. Staff will review the asset allocation on a regular (but at a minimum quarterly) basis. Whenever a particular asset class falls outside the acceptable range, the Staff will either (a) take action to rebalance the portfolio to bring each asset class within its acceptable ranges given a thorough analysis of market conditions and/or pending funding requirements or (b) document any such deviations from these acceptable ranges. Rebalancing activities may be constrained by the illiquid investment(s) within the portfolio.

### d. Authorized investment vehicles

The endowment portfolio may utilize various investment vehicles, including, but not limited to, separately managed accounts, commingled funds, limited partnerships, mutual funds and direct investments. Staff shall provide each manager of a separately managed account with a set of mutually agreed-upon guidelines. In the case of commingled vehicles, the guiding document will be the relevant prospectus or trust document. Commingled vehicles may have investment policies that have been long established and, as such, may not be in strict compliance with this Investment Policy. The Staff will review such policy departures on a quarterly basis and review any material departures with the Sr. VP for Finance and Administration.

### e. Annual distributions

Annual distributions are made using the total return concept. As such, the University's spending policy is to distribute 5% of the endowment's average fair value over the prior 20 quarters through March of the preceding fiscal year in which the distribution is planned. The total spending distribution is at least equal to 3.50% but not greater than 5.25% of the beginning of year portfolio market value. The University expects the current spending policy to allow the endowment to grow at a rate exceeding expected inflation, consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The spending policy is reviewed on a regular basis and may be modified as required.

In accordance with NYPMIFA, subject to the intent of a donor expressed in the gift instrument, the University may appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment is established. Unless stated otherwise in the gift instrument, the assets in the endowment are donor restricted assets until appropriated for expenditure by the University. (An appropriation is generally understood to mean a decision by the governing board to release a portion of an endowment fund from the donor-imposed restriction on spending, thus authorizing it to be spent in accordance with the terms of the gift instrument.) In making a determination to appropriate or accumulate, the University shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant the following factors:

- a. the duration and preservation of the endowment;
- b. the mission of the University and the endowment;
- c. general economic conditions;
- d. the possible effects of inflation or deflation;
- e. the expected total return from income and the appreciation of investments;
- f. other resources of the University;
- g. where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the University; and
- h. the investment policy of the University.

For each determination to appropriate for expenditure, the University shall keep a contemporaneous record describing the consideration that was given by the governing board to each of the factors listed above.

Endowment funds with an original historical cost basis that exceeds the current market value are considered "underwater". Care will be taken so that the spending policy will not result in the invasion of the corpus. Under NYPMIFA, donors may provide written approval to allow spending or prohibit spending from underwater endowment funds. In the absence of a donor election (or directive), only the Board of Trustees has the ability to approve invasions to the corpus of an endowment fund.

## **6. Asset Classes**

The Committee has defined the following major asset classes for portfolio allocation and evaluation purposes, with selected examples of each major asset class (including but not limited to):

- a. Marketable Securities
  1. U.S. Equities:
    - i) Large Capitalization
    - ii) Medium Capitalization
    - iii) Small Capitalization
  2. International Equities:
    - i) Developed Markets (all capitalization)
    - ii) Emerging Markets (all capitalization)
    - iii) Frontier Markets
  3. Global Fixed Income:
    - i) Sovereign (including Emerging Market and Treasury Inflation Protected Securities (TIPS))
    - ii) Corporate
    - iii) Asset Backed
    - iv) High Yield
    - v) Certain Private Placements
- b. Alternative Investments
  1. Private Equity:
    - i) Venture Capital

- ii) Corporate Buyouts
- iii) Distressed Debt
- iv) Special Situations
- v) Private Real Estate
- 2. Hedge / Absolute Return Strategies:
  - i) Long/Short
  - ii) Arbitrage
  - iii) Distressed Debt
  - iv) Managed Futures
  - v) High Yield
- 3. Real Assets (inflation-hedged assets):
  - i) Energy
  - ii) Natural Resources
  - iii) Commodities
  - iv) Public and Private Real Estate (including REITS)
  - v) TIPS

## 7. Manager Oversight

### a. Manager selection

Potential managers for components of the University's endowment will be identified by the Advisor(s) for the University's consideration.

The Staff, in conjunction with the Advisor(s), will review the Advisor's(s') recommendations and, if appropriate, contact the potential managers for additional information and evaluation.

Staff will notify selected managers and the University's custodian and will ensure a smooth transition of assets to the new manager, if applicable.

### b. Monitoring

The Advisor(s) and Staff will contact investment managers periodically, and as required (due to changes in each firm's ownership, key personnel, investment strategy, etc.), to review performance and to confirm that the investment approach remains consistent with that for which the manager was retained. The Advisor(s) will bring to the Committee's and Staff's attention any material changes.

## 8. Miscellaneous

### a. Use of derivative instruments

Derivatives are broadly defined as securities whose value is derived from the value of other securities or indices. Such instruments may include, but are not limited to:

- i. Futures and options on individual securities
- ii. Index futures, options, and swaps on index futures
- iii. Interest rate futures
- iv. Currency futures and options
- v. Inverse floaters, interest only or principal only strips
- vi. Other swaps including credit default and total return

Derivative instruments are frequently used to varying degrees by most hedge funds and real asset funds (specifically, natural resource investments) to create a desired market exposure. As such, these designated managers may use derivatives as a part of their overall investment strategy.

Any use of derivative instruments by all other managers for substitution, cash management or arbitrage trading practices must be approved in writing by the Chair of the Committee. Use of derivative instruments for speculative strategies is prohibited.

The Advisor(s) will periodically report to the Committee on the overall derivative exposure of the portfolio.

Single counterparty exposure is limited to 20% of the cost value of the portfolio. In addition, the credit rating, as provided by the leading, independent rating agencies (e.g., S&P, Moody's, etc.) for each manager's prime broker will be

periodically monitored for investment grade status by the Advisor(s). Any material violations will be communicated by the Advisor(s) to Staff.

- b. Transaction execution  
Security trades should be entered into on the basis of best execution (i.e., best realized net price). Commissions may be designated for the payment of investment-related products and services, provided that such directed trades do not significantly compromise the overall goal of best execution.
- c. Reporting  
The custodian bank statements shall be the official record for endowment portfolio valuations and performance measurement. Performance against objectives is to be measured quarterly over rolling one-, three- and five-year periods. In the case of separately managed accounts in which the majority of securities owned are publicly traded, it is the responsibility of the individual investment managers to reconcile any valuation or performance discrepancies with the custodian bank and report the resolution to the Staff.
- d. Proxy voting  
In general, the investment managers are authorized to vote proxies on the University's behalf. The University has notified all relevant managers of its commitment to sustainability. Each manager, as a part of this commitment, is requested to vote in favor of proxy proposals and board of director candidates that protect human health and the environment within the constraints of their investment policies.
- e. Unrelated business income tax transactions  
Managers should notify the University prior to initiation of any transaction that could generate unrelated business income tax if specific unrelated business income tax exposure was not disclosed within the subscription or limited partnership agreement.
- f. Currency hedging  
Managers investing in non-U.S dollar denominated securities will report to the University the extent to which such securities will be hedged back to the U.S. dollar.
- g. Securities lending  
To enhance investment income, the Committee approves, but does not expressly require, the implementation of any securities lending program at the portfolio level. Such program will require that securities be collateralized at 102% and 105% for domestic and non-U.S. securities, respectively. The custodian of such lending programs will maintain current credit analyses of the brokers to whom they lend and monitor collateralization requirements on a daily basis. Participation in a lending program will not restrict the portfolio manager from trading securities within their portfolio.
- h. Commingled vehicles  
Endowment funds may also be placed in commingled vehicles (such as institutional mutual funds) to achieve investment objectives. In such circumstances, these funds may have investment policies that have been long established and, as such, may not be in strict compliance with this Investment Policy. Staff will review such policy departures on a periodic basis and report any material departures to the Committee.
- i. Receipt of securities  
All marketable securities received by the University, whether as a gift or as a distribution from a private equity investment, shall be liquidated and the proceeds invested in accordance with this Investment Policy. Any exceptions to this Investment Policy shall be documented in the minutes of the Endowment Committee meeting(s).
- j. Recommended changes to guidelines  
If at any time a manager believes that any policy guidelines included in this document or communicated in any other manner by the University unduly inhibits investment performance, it is the manager's responsibility to communicate this view to the Staff.

## **9. Effective Date of Policy**

The effective date of the Investment Policy shall be March 12, 2020. The Investment Policy is effective upon approval by the Committee and shall remain as stated above until further changes are approved by the Committee.

# ROCHESTER INSTITUTE OF TECHNOLOGY

## Investment Policy

### APPENDIX A

#### Roles and Responsibilities

The roles and responsibilities of the Endowment Committee (Committee), Investment Advisor(s) (Advisor(s)), and Sr. VP for Finance and Administration and Finance Staff (collectively “Staff”) are discussed in detail below.

##### Delegation of Authority

The University is managed by its Board of Trustees (Board) which has ultimate responsibility for all aspects of the University’s operations and existence. The members of the Board are fiduciaries charged with the oversight of the management of the assets of the endowment portfolio. As such, the Board is authorized to delegate certain responsibilities to committees as well as certain professional experts in various fields. The Board discharges its finance duties by the establishment of the Finance Committee. The Finance Committee consists of persons in whose skills and characters it has confidence, vesting in them the responsibility for the overall fiscal management of the endowment.

The Finance Committee of the Board has been delegated responsibility for the overall fiscal management of the University, including oversight of the management and investment of the endowment. The Finance Committee discharges its endowment investment management responsibility in large part by the creation of a subcommittee, the Endowment Committee (Committee), consisting of persons in whose skills and characters it has confidence, vesting in them the responsibility for all matters pertaining to investment management of the endowment portfolio.

##### I. Endowment Committee

The Endowment Committee (Committee) is charged with the responsibility for directing the investment of the endowment assets according to this Investment Policy. Committee members shall discharge their duties solely in the interests of the University, in good faith, and with the care an ordinary prudent person in a like position would exercise under similar circumstances. In addition, Committee members agree to refuse any remuneration, commission, gift, favor, service or benefit that might tend to influence them in the discharge of their duties or shall excuse themselves from voting when such a conflict arises. This policy is in addition to the overall University Conflict of Interest Policy by which each Committee member has agreed to operate.

The Committee is responsible for the following:

- a. Establish investment objectives for the endowment portfolio.
- b. Establish ranges for asset allocations including security types, capitalization sizes and manager styles.
- c. Select investment advisor(s) (Advisor(s)), custodian and other third-party service providers as necessary to assist the Committee in carrying out its responsibilities; monitor performance and terminate, as appropriate;
- d. Review any relevant reports from the Advisor(s) in connection with the selection of investment managers which have been selected by the Advisor(s) and Staff.
- e. Select, and as appropriate, terminate investment managers.
- f. Review the performance of each investment manager and the overall portfolio on at least a quarterly basis, or as necessary, to assure adherence to policy guidelines and stated investment objectives.
- g. Review, as needed, the performance of the Advisor(s).

##### II. Investment Advisor(s)

The Committee may appoint an Investment Advisor(s) (Advisor(s)) as an independent, non-discretionary consultant to the Committee.

The Advisor(s) is responsible for the following:

- a. Recommend asset allocations for review and approval.
- b. Research, evaluate and recommend investment managers to oversee endowment asset investments within pre-established allocation ranges.
- c. Perform appropriate due diligence regarding alternative investment opportunities, and present recommended investment opportunities.
- d. Prepare regular reporting including market valuation, performance and portfolio structure information regarding the University's primary endowment portfolio, together with comparisons to relevant benchmarks and objectives.
- e. Contact investment managers periodically to review performance and to confirm that the investment approach remains consistent with that for which the firm was retained.
- f. On a quarterly basis, provide a formal evaluation of investment results and investment policy compliance.
- g. Share relevant research.
- h. Develop and maintain appropriate benchmark indices of performance.

### III. Finance Staff

Finance Staff (Staff) will perform a variety of portfolio infrastructure functions, including, but not limited to, investment manager review, custody and accounting and portfolio administration to support the Committee in its assessment of portfolio performance, strategy and compliance.

The Staff will be responsible for the following:

#### A. Investment Management

- a. Evaluate investment managers proposed by the Advisor(s) by ensuring the selection of the manager conforms to the Committee's stated objectives regarding asset allocation and manager style allocation.
- b. Staff, specifically, the Sr. VP for Finance and Administration, may select and approve, and as appropriate, terminate investment managers. Upon termination of an investment manager, Staff will notify the University's custodian and ensure a thoughtful transition of assets.
- c. Periodically contact selected investment managers to review performance, compliance with guidelines, strategy, key personnel changes and/or internal control/risk assessment issues.

#### B. Custody and Accounting

- a. Staff will recommend to the Committee an endowment custodian based upon a competitive review of costs and services from a variety of custodial banks.
- b. Implement decisions of the Committee.
- c. Perform all accounting for investments and review reconciliations from investment manager statements to the custodian statements (as submitted by the managers) on a regular basis.
- d. Review and reconcile Advisor's(s') monthly market valuations.

- e. Monitor custodial information to identify any material duplication of investments among managers. Any duplication will be brought to the immediate attention of the Sr. VP for Finance and Administration for review and appropriate action.

C. Portfolio Administration

- a. Translate the Committee's high-level policy guidelines into a statement of policies with quantitative measures for assessing compliance. On a periodic basis, Staff will present the Investment Policy to the Committee for review, revision and/or ratification.
- b. Recommend to the Committee any action which it deems appropriate for consideration by the Committee in the discharge of its responsibility.
- c. Maintain minutes and records of all Committee meetings.
- d. Develop evaluation criteria for assessment of the Advisor's(s') performance and prepare a report for the Committee summarizing such performance on a periodic basis.
- e. Monitor asset allocations as determined by the Committee and, in consultation with the Advisor(s), rebalance the portfolio within the Investment Policy guidelines. See Appendix B.

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**APPENDIX B**

**Pool I Asset Allocation**

<u>ASSET CLASS</u>	<u>TARGET (%)</u>	<u>RANGE (%)</u>	<u>BENCHMARK<sup>1</sup></u>
<u>Public Equities</u>			
Global			MSCI ACWI
U.S.			DJ US Total Stock Market
International			MCI ACWI ex US
<b>Total Equities:</b>	<b>30%</b>	<b>25.5-34.50%</b>	<b>MSCI All Country World</b>
<u>Fixed Income</u>			
U.S.			BC U.S. Aggregate
Global			Citi World Government Bond (unhedged)
Treasury Inflation Protection Securities			BC U.S. TIPS
<b>Total Fixed Income:</b>	<b>10%</b>	<b>8.50-11.50%</b>	<b>BC Global Aggregate</b>
<u>Alternative Investments</u>			
Private Equity:	25%	21.25-28.75%	
Private Equity			Burgiss Global Private Equity
Private Debt			BC High Yield
Total Hedge Funds:	25%	21.25-28.75%	
Hedge – Long Biased			MSCI All Country World
Hedge – Absolute Return			U.S. Treasuries 90 days + 400 bps/ HFRI Fund of Funds
Real Assets	10%	8.50-11.50%	Real Estate – NCREIF Townsend Blended Index Liquid Natural Resources – S&P NA Natural Resources Index Illiquid Natural Resources – Mercer Illiquid Natural Resources Index <sup>2</sup>
<b>Total Alternative Investments:</b>	<b>60%</b>	<b>51.00-69.00%</b>	<b>N/A</b>
<b>Total Assets</b>	<b>100%</b>		<b>Policy Index</b>

<sup>1</sup> Benchmarks are subject to change to allow for industry consolidation or better measurement

<sup>2</sup> Mercer's internally created benchmark