

Iowa State University Foundation

Statement of Investment Policy and Objectives for Long Term Pool

INTRODUCTION

This Statement of Investment Policy and Objectives governs the Iowa State University Foundation (the “foundation”) long term pool (the “pool”). The pool must be managed according to the Uniform Prudent Management of Institutional Funds Act as adopted in the state of Iowa, and the prudent investor rule as construed by the courts of Iowa and the Iowa Non-profit Corporation Act.

The responsibility for ensuring the implementation of the policy and guidelines set forth in this statement is delegated to the investment committee (the “committee”) of the ISU Foundation board of directors. This statement shall remain in effect until modified as conditions warrant by the committee. The policy and objectives provided below apply to the overall pool.

UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

The Uniform Prudent Management of Institutional Funds Act was adopted by the State of Iowa on July 1, 2008. In accordance with the respective Iowa statute and the specific section on Managing and Investing Institutional Funds, the committee shall consider the charitable purpose of the foundation and the purposes of the individual fund. Except as otherwise provided by a specific gift agreement, the following rules shall apply:

- In managing and investing an institutional fund, the following factors, if relevant, shall be considered:
 - General economic conditions.
 - The possible effect of inflation or deflation.
 - The expected tax consequences, if any, of investment decisions or strategies.
 - The role that each investment or course of action plays within the overall investment portfolio of the fund.
 - The expected total return from income and the appreciation of investments.
 - Other resources of the institution.
 - The needs of the institution and the fund to make distributions and to preserve capital.
 - An asset’s special relationship or special value, if any, to the charitable purposes of the institution.
- Management and investment decisions about an individual asset shall be made in the context of the institutional fund’s portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.
- Except as otherwise provided by law, an institution may invest in any kind of property or type of investment consistent with this section.

- An institution shall diversify the investments of an institutional fund unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.
- Within a reasonable time after receiving property, an institution shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the institutional fund into compliance with the purposes, terms, and distribution requirements of the institution as necessary to meet other circumstances of the institution and the requirements of this chapter.
- 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 institutional funds.

INVESTMENT OBJECTIVES

- The primary **financial objective** is to preserve and enhance the pool’s inflation-adjusted purchasing power net of all investment management cost, while providing funds for current spending.
- The primary long-term **investment objective** of the pool is to attain an average annual real total return (net of all investment related fees) in excess of total expenditures (spending and overhead expenses), as measured over rolling ten-year periods.¹ Total expenditures are 5.5% (spending is calculated as a percentage of the trailing 12-quarter average market value). The real return objective may be difficult to attain in every ten-year period, but should be attainable over a series of ten-year periods. This objective should be achievable within risk levels defined by this policy.
- A secondary long-term **investment objective** is to outperform, net of fees, an appropriate passive benchmark as described in the *Performance Objective* section.

PORTFOLIO COMPOSITION AND ASSET ALLOCATION

To achieve its investment objective, the pool will be divided into two major subcomponents: an “**equity fund**” and a “**bond fund.**” The division of the pool by asset class need not necessarily be related to the division of the pool assets among outside investment managers. The purpose of dividing the pool in this manner is to ensure that the overall allocation between these two subcomponents remains under the regular scrutiny of staff and the committee and is not allowed to become the residual of separate investment manager decisions.

The purpose of the **equity fund** is to provide a total return that will provide for growth in principal and current income sufficient to support spending requirements, while increasing

¹ Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation as measured by the CPI index.

the purchasing power of the pool's assets. The foundation recognizes that the pursuit of these long-term objectives entails the assumption of market variability and risk.

The **equity fund** will be placed with managers who have distinct and different investment philosophies. The purpose of such diversification is to provide reasonable assurance that no single security, class of securities, or specific investment style will have a disproportionate impact on the pool's aggregate results.

The purpose of the **bond fund** is to contribute to overall return, to reduce the overall volatility of the pool's returns, to provide a hedge against the effects of a prolonged economic contraction, and to provide cash flow to support the university programming (as necessary).

In general, the **bond fund** will be diversified among different sectors of the fixed income market. Up to 10% may be invested in quality ratings below "BBB." However, the overall average quality must be "AA." With the exception of obligations of the US Government and its agencies, no purchase will be made that will cause more than 5% of the fixed income fund to be invested in the securities of any one issuer under normal circumstances.

Attached as Exhibit 1 is the foundation's policy portfolio which outlines the approved target allocation and ranges of asset classes within the pool.

RE-BALANCING AMONG ASSET CLASSES AND ALLOCATION OF NET CONTRIBUTIONS

Because asset classes will perform at different rates, the staff will keep close scrutiny on asset allocation shifts caused by performance. Accordingly:

- Whenever there is to be a contribution to, or withdrawal from, the pool, staff will review the relative market values of the asset segments and attempt to place/withdraw the new money such that the target asset allocations are maintained.
- To the extent that adequate re-balancing among asset categories cannot be effected via cash flows, the staff will re-direct monies from one manager to another to maintain the target ranges in this policy.
- If the allocations are out of ranges, rebalancing to ranges will occur on an as needed basis, but not less than quarterly.
- Rebalancing of diversifying equity will be done with the approval of the investment committee.
- Notification of the rebalancing will be forwarded to the Chief Financial and Administrative Officer and to the Chair of the Investment Committee.

PERFORMANCE OBJECTIVES

The investment performance of the pool will be measured against three custom benchmarks constructed to reflect (where possible) passive investment alternatives to the asset classes contained in the policy portfolio.

The goal of the total pool is to outperform blended benchmarks composed of the returns of various indexes. A Simple Benchmark will be used to measure results over the long-term. The Target-Weighted Benchmark measures returns relative to the target allocation and will be employed to gauge intermediate-term performance. The Complex Benchmark composed of the asset-weighted average of individual manager benchmarks will be employed to measure short/intermediate-term performance. The marketable benchmarks are summarized at the bottom of Exhibit 1. Since the benchmarks reflect only passive investment opportunities, over the short-term, the performance from the Pool may deviate from the performance of the benchmarks.

Individual managers are evaluated versus their passive fully invested benchmarks, regardless of the level of cash assets held by the investment manager. In addition, managers may be evaluated relative to comparable peer universes. The non-marketable portion of the total pool will be measured by the internal rate of return (IRR) and compared to funds of similar style and vintage year.

Factors generally considered when selecting and evaluating investment managers include (but are not limited to) depth and experience of team; organizational stability; assets under management; performance record; risk controls; environmental, social and governance practices; fees; liquidity; and transparency. Manager performance will be monitored on a regular basis and evaluated over rolling three-to-ten-year periods.

MONITORING OF OBJECTIVES AND RESULTS

The overall investment performance of the pool shall be evaluated on the basis of meeting or exceeding the stated investment objectives outlined in this statement. The individually managed portfolios will be monitored for consistency with each manager's investment philosophy; return relative to objectives and peer group performance; investment risk as measured by asset concentrations; exposure to extreme economic conditions; and market volatility. The staff and committee will review portfolios on a monthly basis, but investment results will generally be evaluated over rolling three-to ten-year periods.

CONFLICT OF INTEREST POLICY

The members of the investment committee are charged with the responsibility for recommendations and decisions which in their judgment best serve the long-range interests and objectives of the foundation. In discharging this obligation, they should assiduously avoid placing themselves or the foundation in any situation involving actual or perceived conflicts of interest.

If the investment committee takes up for consideration any matter in which members of the committee, or persons affiliated with them, have a direct or indirect financial interest, the committee shall resolve questions of real or apparent conflict of interest by adopting the following procedures:

- Members of the committee must disclose to the committee any relevant facts which might give rise to a conflict of interest with respect to any matter to be considered by the committee.
- Members so affected must abstain from the committee's discussion of any such matters, unless the committee specifically requests information from them. Such abstention shall be recorded in the minutes of the meeting.
- If requested to do so by any other member of the committee, the affected members must withdraw from the meeting during the committee's deliberations and vote.

AUTHORITY AND RESPONSIBILITIES

Investment Committee

- Recommends to the board the approval of the statement of investment policy and objectives. The board has final approval.
- Recommends to the board the approval of the policy portfolio delineating the target asset allocations (Exhibit 1). The board has final approval.
- Recommends to the board the approval of the spending policy (Exhibit 2). The board has final approval.
- Approves changes in the custodian bank for pool assets.
- Approves recommendations regarding investment managers or consultants.
- Monitors adherence to the statement of investment policy and objectives, including the policy portfolio.
- Reports to the foundation board as appropriate.

The Foundation Staff

The staff of the foundation is charged with the following specific responsibilities:

- Understanding the short and long-term fiscal needs of the foundation and the appropriate role of the pool in meeting those needs.

- Recommending to the committee investment objectives and guidelines consistent with those financial needs.
- Evaluating consultants and custodians, and recommending changes, when appropriate, to the committee.
- Reviewing investment results against performance standards and recommending corrective action when managers fail to achieve expected results.
- Ensuring compliance with committee's expectation that investment manager visits occur on an as-needed basis as requested by committee, staff or consultant. If a manager visit is requested, staff will coordinate an in-person meeting with the respective manager(s), preferably at the manager's location. If an in-person meeting is not possible, then a telephone call may be conducted.
- Complying with all pertinent legal requirements and informing the committee about changing legal requirements, emerging investment practices, industry trends, etc.
- Arranging committee meetings and working with the consultant to set the agenda and prepare materials.
- Providing all other instructions and directions to all parties.

Investment Consultants

Investment consultants employed by the foundation are charged with the following specific responsibilities:

- Recommending to the committee a target asset allocation strategy (policy portfolio) and investment manager structure that will meet the investment objectives.
- Setting appropriate performance standards to evaluate investment managers.
- Reviewing periodically the investment policy, the management structure and investment performance of investment managers to evaluate the pool's progress in meeting its goals and objectives and to determine areas of improvement.
- Meeting with the committee at its regularly scheduled meetings, providing written and oral reports analyzing investment performance, and recommending additions and changes in the strategic asset allocation as deemed necessary or appropriate.
- Meeting with the investment managers and reviewing fund management, including portfolio performance, recommended improvements and other items as needed.

- Recommending changes to investment managers, when appropriate, to the staff and committee.
- Conducting money manager analyses and searches as required, including the design of bid specifications, manager questionnaires, and manager evaluation criteria. The consultant will assist the foundation with evaluating and interviewing all manager candidates, and with contract negotiations and transitional strategies.
- Work with the staff to set the committee meeting agenda and prepare materials.

Investment Managers

Investment managers retained by the foundation are charged with the following specific responsibilities:

- Recognizing their fiduciary roles and responsibilities in managing the assets of the pool.
- Investing assets in accordance with the objectives, goals and standards of performance defined within this statement of investment policy and objectives.
- Exercising full discretionary authority as to all buy, sell and hold decisions for each security subject to the guidelines in this statement of investment policy and objectives.
- Adhering to properly documented and authorized written instructions which amend or change this statement of investment policy and objectives.
- Reporting on investment activities and any factors which may affect the value of the foundation assets including:
 - Commentary on investment results, including each manager’s own calculations of its performance
 - Summary of the key investment decisions made during the last quarter, their underlying rationale, and how they may impact future results upon request.
 - Outlook and specific investment decisions this outlook may trigger
 - Possible changes in objectives, goals, or standards based on changes in the capital markets
- Meeting in person with investment committee or staff as requested. If an in-person meeting isn’t possible, then a telephone call may be conducted.
- Notifying the foundation in writing if there are any significant or material issues or changes pertaining to the investments, including but not limited to:
 - Investment strategy
 - Pool structure

- Tactical approaches
- Ownership or organizational structure of the firm
- Financial condition
- Professional staff
- Recommendation for changes in the investment guidelines
- Any legal or regulatory issues potentially affecting the investments

Custodian

The custodian bank must assume the following responsibilities:

- Providing monthly portfolio transaction reports and monthly asset reports in a timely manner.
- Providing the committee, its investment managers, and investment advisor special reports as reasonably requested.
- Communicating immediately any concerns regarding portfolio transactions or valuation, or material changes in trustee personnel or procedures.

GUIDELINES FOR TRANSACTIONS

The staff members are responsible for initiating purchase and withdrawal transactions with investment managers. In doing so, they will work in conjunction with and follow all guidelines established by the committee.

FREQUENCY OF MEETINGS

Investment committee meetings are to be held as necessary, but at least four (4) times per year.

Revised and approved by the ISU Foundation Board of Directors June 24, 2022
 Revised and approved by the ISU Foundation Board of Directors June 25, 2021
 Revised and approved by the ISU Foundation Board of Directors April 16, 2020
 Revised and approved by the ISU Foundation Board of Directors April 26, 2019
 Revised and approved by the ISU Foundation Board of Directors April 20, 2018
 Revised and approved by the ISU Foundation Board of Directors April 7, 2017
 Revised and approved by the ISU Foundation Board of Directors June 11, 2016
 Revised and approved by the ISU Foundation Board of Directors April 17, 2015
 Reviewed and approved by the ISU Foundation Board of Directors April 11, 2014
 Revised and approved by the ISU Foundation Board of Directors April 19, 2013
 Revised and approved by the ISU Foundation Board of Directors April 20, 2012
 Revised and approved by the ISU Foundation Board of Directors April 14, 2011
 Revised and approved by the ISU Foundation Board of Directors April 16, 2010
 Revised and approved by the ISU Foundation Board of Directors June 26, 2009
 Revised and approved by the ISU Foundation Board of Directors June 21, 2008
 Revised and approved by the ISU Foundation Board of Directors June 23, 2006
 Reviewed and Approved by the ISU Foundation Board of Directors May 20, 2005
 Approved by the ISU Foundation Board of Directors May 21, 2004

Exhibit 1

IOWA STATE UNIVERSITY FOUNDATION POLICY PORTFOLIO

The target allocation and ranges for the policy portfolio are as follows:

EQUITY FUND:	TARGET	RANGE
Public Equity	47%	42%-52%
Diversifying Equity	13%	8%-18%
Private Equity	24%	19%-34%
Real Estate/Natural Resources	<u>6%</u>	1%-11%
Total Equity	90%	
BOND FUND:		
Bonds	<u>10%</u>	5% - 15%
TOTAL PORTFOLIO	100%	

The portfolio will be benchmarked against a Simple Benchmark, a Target-Weighted Benchmark, and a Complex Benchmark constructed as follows:

Simple Benchmark (Long-Term)

70% Morgan Stanley All Country World Index
30% Barclays Aggregate Bond Index

Target-Weighted Benchmark (Intermediate-Term)

Target allocation weighted performance using the following benchmarks.

<u>Asset Class</u>	<u>Benchmark</u>
Global Equity	<i>MSCI All Country World Index</i>
Diversifying Equity	<i>HFR Fund of Fund Diversified Index</i>
Private Equity	<i>67% Russell 3000 Index / 33% MSCI EAFE Index</i>
Real Estate/ Natural Resources	<i>33% DJ-UBS Commodity Index, 33% FTSE EPRA/NAREIT Developed Real Estate Index, 33% S&P North American Natural Resources Index</i>
Fixed Income	<i>Barclays Aggregate Index</i>

Complex Benchmark (Short/Intermediate-Term)

Asset-weighted average of individual manager benchmarks

Exhibit 2

IOWA STATE UNIVERSITY FOUNDATION

SPENDING POLICY

The foundation's spending policy is 5.5% (4.25% spending¹ and 1.25% fee²)

NOTE: The rates listed above are the annual percentages.

1. Spending is made available to Iowa State University for the donor restricted purpose at the end of each calendar quarter. Spending is calculated as a percentage of the average market value of the pool over the prior twelve quarters.
2. The foundation's administrative fee is calculated at the end of each calendar quarter using the ending market value of the pool for that quarter.