

Sterling College

WORKING HANDS. WORKING MINDS.

STATEMENT OF INVESTMENT POLICY

January 2021

Mission Statement

To advance ecological thinking and action through affordable experiential learning that prepares people to be knowledgeable, skilled, and responsible leaders in the communities in which they live.

Vision Statement

Sterling uses education as a force to address critical ecological problems caused by unlimited growth and consumption that is destroying the planet as we have known it, such as:

- Fossil fuel dependence and rapid climate change.
- Destruction of biodiversity and loss of wild places.
- Promotion of harmful agricultural practices that threaten human and natural communities.
- Persistence of structural oppression that impacts human and ecological wellbeing.
- Deterioration of civil society through estrangement from community, nature, and place.

Our vision is informed and guided by five competencies gained through learning assessed by our faculty:

- Achieve a sophisticated understanding of, and personal engagement with, ecological systems.
- Understand societies and cultures as dynamic and complex systems of relationships and interdependencies.
- Use research and creative endeavor to explore concepts, experiences, and artifacts.
- Articulate ideas and share information clearly, using a diversity of approaches.
- Demonstrate effective, knowledgeable, skilled, and responsible leadership in community.

Introduction

The purpose of this policy is to provide guidance for the investment objectives, strategy, management, and spending of the Sterling College's long-term investment pool.

The Sterling College Board of Trustees ("the Board") has fiduciary responsibility for all financial assets of the College. The Board and other fiduciaries of the Endowment shall discharge their duties with respect to the Endowment, solely for exclusive benefit of the assets held in trust, and consistent with Sterling policy as outlined in its bylaws and its conflict-of-interest policy. These duties shall be carried out with skill, care, and 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 like character and like aims. The Board, through its bylaws, delegates authority to the Investment Committee to establish, maintain, and monitor an investment process for Sterling's Endowments and other long-term investible assets. The Board approves this *Statement of Investment Policy* and all revisions to it. This

Statement shall be reviewed at least annually by the Investment Committee to ensure that it continues to provide appropriate guidance and flexibility.

Definition of Long-Term Investment Pool

The long-term investment pool includes financial assets that are invested with a very long—perpetual—investment horizon. At this time, this pool is the “Sterling College Endowment” or “Endowment.” The long-term investment pool generally is a single investment portfolio, though it is possible that some endowed funds may be invested separately in order to comply with donor-specified restrictions or specific Board-approved purposes.

The Sterling College Endowment

The Sterling College Endowment (“the Endowment”) is intended to provide operating support to Sterling College in perpetuity. It includes most endowed gifts (“restricted Endowments”) and other gifts or reserves of the College designated by the Board to be preserved and invested rather than spent on current operations (“quasi-Endowment”). These other gifts that the Board chooses to designate for investment alongside Endowments in the long-term pool must have a compatible, very long-term time horizon.

Investment Objectives

- The investment objectives of the Endowment strive to balance, within the context of the fiduciary requirements for prudence imposed by State of Vermont statutes,¹ the expectations of restricted gifts by donors to preserve in perpetuity the corpus of gifts or the real economic value of gifts, with Sterling’s needs for current financial support to fulfill its mission.
- The primary investment objective in managing the Endowment is to preserve in perpetuity the real value of the Endowment by regularly generating a rate of nominal investment return, net of investment expenses, that exceeds the Higher Education Price Index (HEPI) plus the College’s Endowment spending rate.
- A secondary investment objective for the Endowment is to grow the nominal value of its assets by maximizing the long-term rate of return, net of investment expense, within the context of institutional risk tolerance and other constraints on portfolio construction described in this *Statement*.
- The Endowment should invest in assets consistent with the College’s social and ecological mission, as reflected in the above Mission Statement and Vision Statement and codified by the environmental, social, and governance (ESG) criteria included below.
- The Endowment should maintain an overall level of financial assets and liquidity to ensure sufficient capital is available for operations and strategic opportunities while avoiding underwater funds.

ASSET ALLOCATION

- A. To achieve its investment objectives, the Endowment funds shall be allocated among a number of asset classes. These assets should include cash, publicly traded domestic and international equities, fixed income securities, and alternative investments. The purpose of allocation among asset classes is to ensure the proper

¹ Uniform Prudent Management of Institutional Funds Act. (Added 2009, No. 9, § 2, eff. May 5, 2009.)
<https://legislature.vermont.gov/statutes/fullchapter/14/120>

level of diversification within the Endowment funds, maximizing returns while reducing volatility. The risk/reward relationships of the asset classes and investments will vary considerably.

- B. The following Target Asset Allocation defines the Endowment’s current target asset allocation, and the minimum and maximum allocation limits of each asset class.

<u>Asset Class</u>	<u>Current Target</u>	<u>Range</u>
Publicly Traded Equities	60%	40-80%
Fixed Income	35%	20-40%
Alternative Investments	0%	0-10%
Cash	5%	0-20%

The asset allocation targets will be reviewed on at least an annual basis.

- C. The Investment Committee will meet at least quarterly to review the Endowment’s funds and rebalance the asset mix of the Endowment, as necessary.
- D. The asset allocation strategy shall be to diversify investments among equity, fixed income, cash and alternative investments so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.
- E. Within the equity, fixed income and alternative asset classes, managers with different investment styles may be employed, since diversification by investment style is also an important step in reducing the risk of the Endowment portfolio.
- F. Equity Securities: Stocks should include both growth and value issues and not be limited to one size category. Large-cap, mid-cap, and small-cap equities are all permissible choices. Likewise, foreign stocks are permissible in the Endowment’s portfolios.
- G. Fixed Income Securities: Securities within the fixed income asset class may include U.S. Government agency bonds, domestic corporate bonds, international issues, high yield bonds, community development finance institutional debt (CDFI), and private debt.
- H. Alternative Investments: Within the context of this policy statement, “Alternative Investments” will generally mean private equity, private equity funds, venture capital, venture capital funds, hedge funds, and real estate funds. For most alternative investments, the purchaser needs to be “accredited,” as defined by securities regulations. Sterling may participate in those alternative investments for which it is eligible, after they have been individually approved by the Investment Committee.

Spending Policy

The Investment Committee is responsible for the establishment of a balanced Endowment spending policy to support the success of the College by (a) ensuring that over the medium-to-long term, sufficient investment returns shall be retained in the Endowment to preserve and grow its economic value and, (b) providing funds for the annual operating budget in an amount which supports its near-term viability and not subject to large fluctuations from year to year to

the extent possible. In balancing these two priorities the Spending Policy shall consider general economic conditions, expected total return on the Endowment, other financial resources available to the College, and this *Statement*.

Based on market conditions and expected returns, the Investment Committee shall annually recommend the spending rate on the Endowment to the Finance Committee. The Investment Committee will seek a prudent rate of spending between 4% and 6% of the trailing 12-quarter average as of June 30 each year.

In formulating its recommendation, the Investment Committee will consider Sterling's operating and other financial resource needs, the current market value of the Endowment, historical long-range returns, predicted future returns, funds that might be "underwater" at the time, the current rate of inflation and which inflation measure is most appropriate for capturing intergenerational equity (e.g., HEPI v. CPI-U), fund raising activity that might contribute to growing the value of the Endowment, and other items deemed appropriate.

As permitted by UPMIFA, the Investment Committee will decide on a case-by-case basis whether or not to continue spending from underwater Endowment funds.

Roles & Responsibilities

The long-term investment pool shall be managed with the high standards of fiduciary duty and in compliance with applicable laws and regulations. Each person responsible for managing and investing The Sterling College Endowment shall act "in good faith and with the care an ordinarily prudent person in a like Capacity would exercise under similar circumstances."

The Board has fiduciary responsibility for all financial assets of the College and provides final approval of this *Statement of Investment Policy* and all revisions to it.

The **Investment Committee** is responsible to the Board for the development, recommendation, implementation, maintenance and oversight of all investment policies for Sterling's long-term investment pool. The Committee is also responsible to recommend the Endowment spending rate to the Finance Committee as part of the annual budgeting process (for ultimate approval by the Board when budget recommendations are reviewed and adopted), and to review this *Statement* annually.

Sterling's Administration is responsible for the day-to-day administration and implementation of the policies established by the Investment Committee. This includes day-to-day operational investment activities; contracting with all service providers including consultants, investment managers, attorneys, banks, and/or trust companies and monitoring of their adherence to the terms of their contracts; reviewing investment fees and expenses to ensure only reasonable and necessary contracted expenses are assessed; complying with all accounting and auditing guidelines with special focus on fair valuation requirements; providing modeling and analysis necessary to support an annual Endowment spending recommendation; and assisting the Investment Committee with providing information to assist with asset allocation modeling and cash flow modeling to support investment decisions, the timing of investment decisions, and the maintenance of adequate portfolio liquidity.

The Investment Committee may engage one or more **Investment Managers**. Investment Managers pursue their own investment strategies within the guidelines created for the manager in accordance with this *Statement*, the Endowment's asset allocation strategy, and guidelines provided to them by the Investment Committee. Investment Managers shall provide written documentation to the Investment Committee and Administration of portfolio

activity, portfolio valuations, performance data, and portfolio characteristics on a regular basis in addition to other information as requested by the Investment Committee.

The **Asset Custodian** is responsible for the safekeeping of Endowment assets and the accurate and timely movement and recording of all authorized cash flows into and out of the portfolio, as well as the timely and accurate reporting of the month-end account balances. The Investment Committee is responsible for monitoring the Asset Custodian to ensure that it fulfills its role effectively and at reasonable cost.

STERLING COLLEGE ENDOWMENT ENVIRONMENTAL, SOCIAL, AND GOVERNANCE INVESTMENT CRITERIA

Sterling College's mission includes a commitment to ecological thinking and action and the College has committed to become an anti-racist institution. It is critical that the Endowment's investments and investment management practices reflect these values.

Investment managers will avoid investing Sterling's endowment and cash reserves in companies with material involvement in the following:

- Fossil fuel extraction, exploration, production, and refining
- Production of electric power generated primarily by fossil fuels or nuclear fuels
- Conventional or nuclear weapons and their support systems
- Manufacture or sale of firearms for civilian use
- Privatized operation of prisons
- Animal testing, beyond legal requirements
- Factory farming
- Tobacco, tobacco products, and e-cigarettes
- Agricultural biotechnology
- Activities that provide strategic support to repressive regimes (e.g., Myanmar and North Korea)

Investment managers will seek to invest in corporations and organizations with the following characteristics:

- Public, comprehensive reporting on environmental, social, and governance (ESG) performance
- Beneficial products or services, such as energy efficiency, water conservation, renewable energy, and regenerative agriculture
- Strong policies and practices to address climate change, such as greenhouse gas emissions reduction targets and extensive use of renewable energy
- Proportional representation of women and minorities on the board and top management
- Disclosure of workforce diversity (EEO-1 form)
- Strong supplier diversity programs
- Progressive employment policies (e.g. generous retirement benefits, employee stock-ownership plans, same-sex domestic-partner benefits, on-site childcare, liberal parental leave)
- Express policies and practices ensuring full equality for lesbian, gay, bisexual, and transgender (LGBT) employees
- Strong affirmative action programs and demonstrated achievements in advancing women and people of color in management and in fields in which they are underrepresented
- Respect for workers' freedom to organize and freedom of association
- Consistent application of best environmental, labor, and human rights practices globally, even where local or national laws are less stringent
- Commitment to free, prior, and informed consent when conducting business on indigenous land, following the UN Declaration on the Rights of Indigenous Peoples
- Policies to discourage child labor or other grossly exploitative labor practices in the provision of services and the manufacture and sourcing of products
- Strong board oversight of ESG policies and performance

Proxy Voting Policy

The College expects its investment managers to vote the Endowment's proxies in a manner consistent with the above criteria and the College's Mission and Vision Statements.