Investment Policy Statement

Idaho State University Foundation, Inc.

921 South 8th Ave., Stop 8050

Pocatello, ID 83209-8050

Date: April 24, 2019
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>PURPOSE</td>
<td>3</td>
</tr>
<tr>
<td>DUTIES AND RESPONSIBILITIES</td>
<td>3</td>
</tr>
<tr>
<td>INVESTMENT CATEGORIES</td>
<td></td>
</tr>
<tr>
<td>ENDOWMENT POOL</td>
<td>5</td>
</tr>
<tr>
<td>Objectives</td>
<td>5</td>
</tr>
<tr>
<td>Adherence to Policy Targets and Rebalancing</td>
<td>7</td>
</tr>
<tr>
<td>Investment Securities, Strategies and Diversification</td>
<td>7</td>
</tr>
<tr>
<td>Volatility</td>
<td>7</td>
</tr>
<tr>
<td>MEDIUM-TERM CASH POOL</td>
<td>7</td>
</tr>
<tr>
<td>Objectives</td>
<td>7</td>
</tr>
<tr>
<td>Investment Allocation</td>
<td>8</td>
</tr>
<tr>
<td>HOLDING ACCOUNT CASH POOL</td>
<td>8</td>
</tr>
<tr>
<td>Objectives</td>
<td>8</td>
</tr>
<tr>
<td>Investment Allocation</td>
<td>8</td>
</tr>
<tr>
<td>OTHER INVESTMENTS</td>
<td>8</td>
</tr>
<tr>
<td>CONTROL PROCEDURES</td>
<td>8</td>
</tr>
<tr>
<td>Review of Assumptions</td>
<td>8</td>
</tr>
<tr>
<td>Review of Investment Objectives</td>
<td>8</td>
</tr>
<tr>
<td>Review of Investment Manager and Investments</td>
<td>9</td>
</tr>
<tr>
<td>Performance Expectations</td>
<td>9</td>
</tr>
</tbody>
</table>
PURPOSE

This Investment Policy Statement (IPS) sets forth the standards and guidelines governing the investment and management of the Foundation’s financial assets in compliance with donor restrictions, the Foundation’s governing policies and procedures, and state and federal laws and regulations including, but not limited to, the Uniform Prudent Investors Act and the Uniform Management of Institutional Funds Act.

This policy defines the responsibilities of the Foundation Board of Directors (Board) and any other parties involved in managing the Foundation’s investments. It identifies or provides permissible investments, target asset allocations, and diversification requirements.

The IPS serves to guide the Investment Committee (Committee) in effectively supervising and monitoring the overall management of the various investments of the Foundation, and to provide direction to investment managers employed to manage its assets on behalf of the Foundation Board.

The Investment Committee has considered the following in the development of this Policy:

- Primary Investment Goals and Constraints;
- Rate of Return Objective;
- Investment Risks;
- Investment Time Horizon;
- Role of different asset classes;
- Liquidity;
- Spending Policy;
- Asset Allocation;
- Laws and Regulations; and
- Tax Considerations.

This IPS shall be reviewed from time to time to ensure that it continues to reflect the appropriate expectations, goals, and objectives for the various investments of the Endowment.

DUTIES AND RESPONSIBILITIES

Board of Directors

The Board has the ultimate fiduciary responsibility for the prudent and effective investment of the assets of the Foundation. The Board has delegated responsibility for the investment management process to the Investment Committee (Committee) as indicated in Policy Section 5.04 – Investments.
Investment Committee

The Committee shall perform the functions of an investment fiduciary responsible for the prudent management of the Foundation’s investments. The Committee has the authority to establish all investment policy statements for the Foundation’s investments, as delegated by the Board in Policy Section 5 – Investments and Policy Section 9.05 – Investment Committee.

A Committee member shall act in good faith with the care an ordinarily prudent person in a like position would exercise under similar circumstances and in a manner the member reasonably believes to be in the best interests of the Foundation. In discharging Committee duties, a Committee member shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by the Foundation officers or employees whom the member reasonably believes are reliable and competent in the matters presented, including from legal counsel, investment consultants, OCIOs, advisors, public accountants or other persons as to matters the member reasonably believes are within the person’s professional or expert competence or a committee of the Board of which the committee member is not a member if the member reasonably believes the committee merits confidence.

A member who meets the foregoing standards shall be presumed to have discharged his or her duties as a Committee member.

Outsourced Chief Investment Officer

The Board has specifically authorized the Committee to retain and direct one or more investment advisors in Policy Section 9.05.03. The Outsourced Chief Investment Officer (OCIO) advises the Committee with regard to the implementation of this Policy and manages certain investment assets on a day-to-day discretionary basis within the guidelines of this Policy. The specific responsibilities of the OCIO are listed in Policy Section 9.05.03.

Custodian

The Committee shall review and consider a custodian to hold and account for certain Foundation assets. The investment custodian is responsible for safekeeping the investment assets, reporting on holdings and transactions, pricing assets using independent pricing mechanisms, collecting interest and dividends and effecting transactions.
Governance Matrix

<table>
<thead>
<tr>
<th>ISUF, Inc. Board of Directors</th>
<th>Decides</th>
<th>Delegates</th>
<th>Delegates</th>
<th>Yes (ultimate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Committee</td>
<td></td>
<td>Implements</td>
<td>Approves</td>
<td>Sets ranges</td>
</tr>
<tr>
<td>SEI as OCIO*</td>
<td></td>
<td>Advises</td>
<td>Implements</td>
<td>Assists/Provides</td>
</tr>
<tr>
<td>SEI as Custodian</td>
<td></td>
<td></td>
<td></td>
<td>Safeguards</td>
</tr>
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*Outsourced provider assumes fiduciary responsibility and performs all of the functions of the investment manager(s), investment consultants and custodian. Only a fiduciary with respect to the investment manager selection (where delegated the responsibility) and possibly co-fiduciary if given discretion over asset allocation

INVESTMENT CATEGORIES

This Policy governs the investment of four distinct groups of funds: the endowment pool, the medium-term cash pool, the short-term cash pool and miscellaneous other investments. Because each group of investments has a different objective, this Policy addresses them separately.

The Foundation’s primary investment objective is to preserve and protect its assets by earning a total return for each category of assets which is appropriate for each category’s time horizon, distribution requirements, and risk tolerance.

ENDOWMENT POOL

Objectives

The primary objective of the endowment pool is to preserve the long-term purchasing power of the investments after withdrawals are taken. The objectives for the endowment have been established in conjunction with a comprehensive review of the current and projected requirements.

With its endowment management practices, the Foundation seeks to:

1. Support and augment Idaho State University’s programs by responsible stewardship of the money donated to the endowment funds,
2. Promote growth of the endowment in order to realize the greatest return on the endowment assets. Growth is expected to occur through positive net returns, building reserves and attracting new donors as a result of responsible management of the assets.

3. Achieve on average, over a full market cycle, the hurdle rate (net of investment management fees) or higher as it relates to annualized endowment performance. The hurdle rate is the aggregate of:

   - Spending rate (currently 4%)
   - Administrative fee (currently 1.5%)
   - Inflation rate (CPI; variable; approximately 2%)

4. Exceed, over a full market cycle, the average return (net of investment management fees) of appropriate indexes weighted by asset allocation target percentages. This total portfolio benchmark is viewable on the monthly performance statement for the endowment provided by the OCIO; this benchmark can change throughout time as the asset mix changes.

5. Exceed, over a full market cycle, appropriate index returns in each asset class. Due to the nature of the financial markets, there can be no assurance that these objectives will be met. The Committee also realizes and agrees that historical performance is no guarantee of future performance.

**Asset Allocation Targets**

It is the policy of the Endowment to invest assets with an allocation as shown below:

<table>
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<tr>
<th>Asset Class</th>
<th>Permitted Ranges*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>80% - 90%</td>
</tr>
<tr>
<td>Risk Reduction</td>
<td>5% - 15%</td>
</tr>
<tr>
<td>Inflation Hedge</td>
<td>3% - 10%</td>
</tr>
</tbody>
</table>

* Specific weightings to each strategy within each asset class is viewable on the latest Investment Management Agreement Schedule A document.

Within each asset class, assets will be invested in accordance with the Guidelines set out below.

In accordance with the terms of the Investment Management Agreement, Manager will retain discretion with respect to the SEI mutual funds utilized by Manager to implement the Strategy. Additionally,
Investment Manager will retain discretion with respect to modifications required to the asset allocation identified above.

**Adherence to Policy Targets and Rebalancing**

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 Endowment back into compliance with this Investment Policy and will issue the necessary instructions for the transfer of funds. The Investment Manager automatically rebalances return generating assets and fixed income assets on a quarterly basis with a 2% tolerance band. The alternative assets are rebalanced on a quarterly basis with 5% tolerance bands.

**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.

**Volatility**

Consistent with the desire for adequate diversification, the investment policy is based on the assumption that the volatility of the combined equity investment will be similar or less than that of the market opportunity available to institutional investors with similar return objectives. The volatility of fixed income portfolios may be greater than the market during periods when the portfolio duration exceeds that of the market.

**MEDIUM-TERM CASH POOL**

**Objectives**

The Foundation holds funds that are not intended for long-term investment as part of the endowment pool. These funds are expected to be called by the University or used for Foundation operations within a 1-3 year time frame, but could be needed at any time.
**Investment Allocation**

In order to maximize the investment revenues, these funds may be invested in securities or other investment vehicles assuming a level of risk and commensurate return are less than the endowment pool, but more than the short-term cash pool. The level of risk taken should minimize but not eliminate the risk that the value of the investments is less than the original value when the funds are called by the University or needed for Foundation operations.

**HOLDING ACCOUNT CASH POOL**

**Objectives**

The Foundation holds funds that are intended for short-term investment separate from the endowment pool. These funds are expected to be called by the University or used for Foundation operations within a 0-3 year time frame, but could be needed at any time.

**Investment Allocation**

In order to maximize the investment revenues, these funds may be invested in securities or other investment vehicles assuming a level of risk and commensurate return less than the endowment or medium-term cash pools, but more than would be earned if carried as cash. The level of risk taken should eliminate or nearly eliminate the risk that the value of the investments is less than the original value when the funds are called by the University or needed by the Foundation.

**OTHER INVESTMENTS**

From time to time, the Foundation may hold other investments that are not appropriately included in any other category. These investments may include certificates of deposits, gifts of securities intended for immediate liquidation and interests in partnerships, joint ventures or limited liability companies that have been donated to or purchased by the Foundation.

**CONTROL PROCEDURES**

**Review of Assumptions**

All major assumptions regarding spending, fundraising, inflation, and liquidity needs will be subject to an annual review by the Committee. This review will focus on an analysis of major differences between the Foundation’s assumptions and actual experience.

**Review of Investment Objectives**

Investment performance will be reviewed annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy for achieving these objectives. In addition, the validity of the stated objective will be reviewed annually.
It is not expected that the Investment Policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the Investment Policy.

**Review of Investment Manager and Investments**

The Investment Manager will report on a quarterly basis to review the total Endowment investment performance.

The Investment Manager will be responsible for keeping the Committee advised of any material change in its personnel, the investment strategy, or other pertinent information potentially affecting performance of all investments.

Performance reviews will focus on:

- Comparison of investment results to appropriate benchmarks, as well as market index returns in both equity and debt markets.
- Investment adherence to this Investment Policy and guidelines.
- Material changes in the investment organizations, such as in investment philosophy and personnel, etc.

**Performance Expectations**

The most important performance expectation is the achievement of long-term investment results that are consistent with the Endowment’s Investment Policy. Implementation of the policy will be directed toward achieving this return and not toward maximizing return without regard to risk.

The Committee recognizes that this real return objective may not be meaningful during some time periods. In order to ensure that investment opportunities available over a specific time period are fairly evaluated, comparative performance statistics (including benchmark indices) will be used to evaluate investment results.

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**ADOPTION OF INVESTMENT POLICY STATEMENT**

The Idaho State University Foundation, Inc. Board of Directors has reviewed, approved and adopted this Investment Policy Statement, dated April 24, 2019, prepared with the assistance of SEI Investments Management Corporation.

[Timestamp]  
Signature Date