

MONTCLAIR STATE UNIVERSITY  
Montclair, New Jersey

BOARD OF TRUSTEES

June 20, 2018



- Whereas: On May 3, 2017, The Student Government Association passed resolution S2017-368 recommending that the University adopt a socially responsible investment policy banning investments in fossil fuels; and
- Whereas: President Susan A. Cole referred the Student Government Association resolution to the University Senate, seeking the Senate's recommendation; and
- Whereas: On March 28, 2018, The University Senate submitted its recommendation to President Cole; and
- Whereas: President Cole, after full consideration of the Student Government Association resolution and the University Senate's recommendations, recommended that the Board of Trustees create an Advisory Committee on Socially Responsible Investment.

Now, Therefore, Be It Resolved

The Board of Trustees hereby establishes an Advisory Committee on Socially Responsible Investment to recommend to the Board of Trustees: a set of criteria, which can be revised and updated from time to time, against which the University's relationships with financial institutions can be evaluated; the development of what is often described as an Environmental, Social, and Governance ("ESG") strategy, directing the University's investment managers to incorporate ESG factors into the construction of the University's fixed income portfolio; consideration of a divestment strategy that focuses on the most egregious fossil fuel related companies such as those whose primary business is coal extraction; and ongoing consideration of opportunities to advance evolving ESG goals both within the fixed income portfolio and potentially for equities to the extent that new investment options with sufficient liquidity and comparable cost structures become available in the future.

The committee shall be comprised of:

- Two gubernatorial appointed members of the Board of Trustees, one of whom shall serve as Chair of the Committee
- The elected voting Student Trustee
- The Vice President for Finance
- Assistant Treasurer who will staff the Committee
- A dean selected by the President
- Two members of the faculty, nominated by their colleges or schools and selected by the Provost
- One student, nominated by the Student Government Association, and selected by the Vice President for Student Development and Campus Life
- The Faculty Representative to the Board of Trustees
- A representative of the University Senate, nominated by the Senate and recommended by the President



Memorandum

Date: June 12, 2018

To: Board of Trustees

From: Susan A. Cole

Re: Socially Responsible Investment

In May of 2017, I received a resolution on Socially Responsible Investing from the Student Government Association (**Attachment A**). On October 16, 2017, I wrote to the University Senate and requested that it consider the Student Government resolution and make recommendations to me regarding the matter (**Attachment B**). The Senate formed a committee to study the issue, and on April 4, 2018, Senate President David Trubatch sent me a document incorporating the Senate recommendations (**Attachment C**).

As this Board is aware, Montclair State University has a strong record of leadership on environmental issues as demonstrated by its substantial direct investment in “green” infrastructure on campus, sound operational practices, and programs and research in the field of sustainability. In particular, the University’s commitment to addressing climate change is evident in our significant investment in LEED certified buildings, solar panels, a micro grid, and various other initiatives aimed at minimizing the University’s energy usage and reducing its carbon footprint.

In recent years, many institutions, including universities, have begun to recognize the role of investment activities in helping to amplify institutional values and have, accordingly, developed policies on Socially Responsible Investment. Such policies and their implementation are complex matters in any university environment because they must exist within the context of: the University’s need to efficiently and cost-effectively provide a massive and reliable energy infrastructure for all the mission-related needs of the campus and its many facilities; the fact that the University is an environment where discussion, opinion, and points of view range widely in regard to any subject; and the fact that the Board of Trustees and the administration of the University have a fiduciary duty to manage the University’s financial resources for the benefit of the institution’s core missions of education and research.

When it comes to the issue of Socially Responsible Investment, Montclair State University differs from many of the other institutions that have addressed this matter, in that the others are mainly private institutions with large endowments held for long-term purposes. Montclair State’s investment portfolio is not a long-term endowment portfolio. It is primarily a working capital fund that is used to help manage intra-year fluctuations in cash flow and to allow the University to address unanticipated educational needs, exigent circumstances, and, when necessary, the costs of renovations and improvements to our

facilities. The funds are held in the University's bank account and other externally managed accounts in accordance with an Investment Policy Statement (**Attachment D**) approved by the Board of Trustees. Because the funds are not intended to be held for long-term purposes and can fluctuate significantly, the Board's policy guidelines are relatively stringent and weighted toward highly rated bonds with short durations.

Given the nature of the University's investment portfolio and the specific requirements of the University as an instrumentality of the State, there are a number of matters that are part of the consideration in any investment policy, including, for example, the following:

- The University is not able to control the underlying investments or individual holdings in certain investment vehicles, including the New Jersey State Cash Management Fund, the State Pension System, or the equity investments in exchange-traded or mutual funds.
- In cases where the University has the ability to control underlying investments, such as in our separately managed fixed income portfolio, because of the Board's fiduciary obligations in regard to student tuition revenues and state appropriations, any investment screens based on social impact would have to be considered in light of portfolio performance. With regard to the SGA and faculty committee recommendation that the University refrain from doing business with institutions that financially support the Dakota and Keystone XL pipelines, we would have to be certain that any bid specifications for financial services do not unduly limit the pool of providers and thus the competition that is fundamental to the principles of any public procurement environment. As a point of information, the University's current primary bank, Bank of America, has represented to the University that it does not provide loans or other commercial banking services to either of the two pipelines.
- While, as noted above, the University has made significant efforts to incorporate sound environmental practices in its approach to construction, renovation, energy infrastructure and maintenance procedures, the idea of the University making direct financial investments in Green and Renewable Energy and Transportation businesses would not fit with the purposes of the University reserve funds or the current investment policies, given the duration, liquidity, and risk profile of the University's fixed income investment portfolio. Most renewable investments require either acceptance of higher risk (often in companies that are early-stage ventures) or limited liquidity (private equity or long-term project financings) which do not fit within the Board's guidelines for prudent investing.

On a more general level, as the field of socially responsible investment has evolved, investment experts have focused more on the overall corporate philosophy and operating practices of individual companies, rather than on particular types of activities that their institutional clients may find objectionable. For example, while many energy companies continue to derive a substantial portion of their earnings from fossil fuels, many have clearly acknowledged the negative effects of climate change and have begun to diversify and make substantial investments in renewable energy. Similarly, some banks that may have been lenders to the Dakota Access and Keystone pipelines are also vital sources of capital to many renewable energy projects such as solar and wind farms.

Where the MSU Board would wish to exercise an environmental view or other social screen in those instances where it has control over the underlying investments, it may be more appropriate (as some other colleges and universities have found) to take a more comprehensive and nuanced approach to evaluating investments, rather than adopt a simple negative screen. Such an approach can, in fact, be a more practical way of addressing the environmental or social issues that may be expressed by way of campus

constituents. Finally, it is always important that care be exercised in recognizing that there can be legitimately divergent points of view in any large University community as to the definition of what is, or is not, socially responsible.

Given the complexity and importance of the issues, given the growing interest in the campus community to consider the implementation of Socially Responsible Investment policies, and given the Board of Trustee's authority and fiduciary responsibilities in regard to the oversight of investment activities, I recommend that the Board follow the example of some other universities and establish an Advisory Committee on Socially Responsible Investment. I recommend that the Committee membership be composed as follows:

- Two gubernatorial appointed members of the Board of Trustees, one of whom shall serve as Chair of the Committee
- The elected voting Student Trustee
- The Vice President for Finance, and the Assistant Treasurer who will staff the committee
- A dean selected by the President
- Two members of the faculty, nominated by their colleges or schools and selected by the Provost
- One student, nominated by the Student Government Association, and selected by the Vice President for Student Development and Campus Life
- The Faculty Representative to the Board of Trustees
- A representative of the University Senate, nominated by the Senate and recommended by the President

The responsibility of the Committee would be to recommend to the Board of Trustees: a set of criteria, which can be revised and updated from time to time, against which the University's relationships with financial institutions can be evaluated; the development of what is often described as an Environmental, Social, and Governance ("ESG") strategy, directing the University's investment managers to incorporate ESG factors into the construction of the University's fixed income portfolio; consideration of a divestment strategy that focuses on the most egregious fossil fuel related companies such as those whose primary business is coal extraction; and ongoing consideration of opportunities to advance evolving ESG goals both within the fixed income portfolio and potentially for equities to the extent that new investment options with sufficient liquidity and comparable cost structures become available in the future. Fortunately, as the ESG approach has evolved in recent years, there exist tools and resources to help institutions match their criteria weightings to their investment selection process. Part of the committee's work will involve examining such resources for possible use by the University.

# Attachment A

Bill #S2017-368

**BE IT ENACTED BY THE LEGISLATURE OF THE STUDENT GOVERNMENT ASSOCIATION OF MONTCLAIR STATE UNIVERSITY, INC. THAT:**

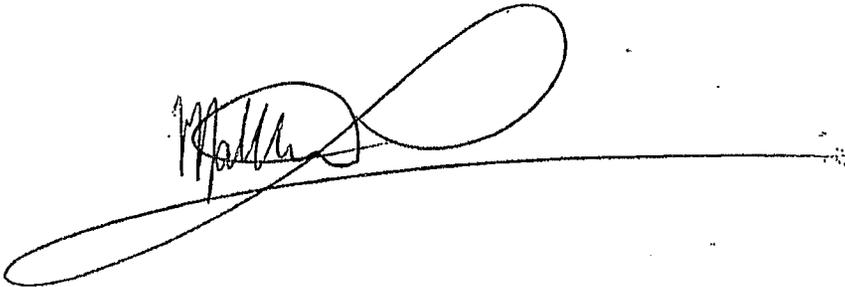
**WHEREAS:** Climate Change is largely caused by burning fossil fuels and;

**WHEREAS:** Climate Change is an existential threat that is already happening and;

**WHEREAS:** Every citizen has a responsibility to eliminate the threat of climate change;

**BE IT RESOLVED THAT:** The Student Government recommends Montclair State adopt a Socially Responsible Investing (SRI) policy that bans the investiture of fossil fuels and companies that support the Dakota Access Pipeline.

Submitted by:  
Matthew Kelly  
SGA Legislator  
April 3rd, 2017

A large, stylized handwritten signature in black ink, appearing to read 'M. Lerman', is written over a horizontal line. The signature features a large loop at the end.

**Matthew B. Lerman  
Executive President**

**MAY 03 2017**

**Student Government Association  
Montclair State University  
2016-2017**



# Attachment B



October 16, 2017

Professor David Trubatch  
President, University Senate

Dear David:

I write to request that the University Senate consider and make recommendations to me regarding an investment policy matter raised by the Student Government Association. Earlier this year the SGA resolved that the University “adopt a Socially Responsible Investing (SRI) policy that bans the investiture of fossil fuels and companies that support the Dakota Access Pipeline.” (The full text of the resolution is attached.)

As background, the University has a prudently managed asset account predominantly encompassing our working capital fund, which helps to smooth out intra-year cycles of cash flow, enables the University to respond to unanticipated needs and exigent circumstances, and is available, if needed, for building renovations and improvements. To the extent that the cash is not needed for immediate use, it is invested, in order to provide additional resources. Until about a decade ago, these funds were held within the University’s day-to-day bank accounts or in a cash account managed by the State, both of which provided minimal returns. The fund is now outsourced to an excellent investment firm which manages the account on the University’s behalf, within parameters established by the Board of Trustees. Those parameters include such criteria as the duration, credit quality, and liquidity of the individual holdings, which include corporate bonds, U.S. Treasuries, municipal bonds, and other fixed income assets. A review of the investments suggest that approximately 6%, that is, a very small percentage of the holdings, involve companies whose operations directly involve the creation of energy using fossil fuels.

Currently, the University does not screen investments for the mission or purpose of the entities in which we invest. Some other institutions have adopted such screens, some broader and some very limited, while others have chosen not to adopt any such screens. Since the issue has now been raised at Montclair State, before making a recommendation to the Board of Trustees on this matter, I would appreciate hearing the views of the University Senate.

My suggestion is that you form a small task group to consider this matter and make recommendations to the full Senate and subsequently to me, within four months. I will then be able to discuss the matter with our Board of Trustees within the current academic year. Ultimately, of course, this decision is one that the Board will need to make as a matter of policy and institutional governance.

As the Senate’s task group fulfills its charge, I think it is important that its members become familiar with the major developments that have been made on the campus in regard to how we generate the substantial amount of energy needed to run our facilities. In brief, the University creates most of the electricity and steam needed to run our campus through a co-generation facility that we built in partnership with a

private firm. That facility has saved the University (and its students) very substantial amounts of money, compared to the cost of other, more traditional, sources of energy. The plant itself functions very efficiently and is operated largely with natural gas, which is obtained through outside energy suppliers. I mention this – and Vice President Connolly can provide you with much more information – because whatever recommendations the Senate might make should be consonant with the significant commitment the University has made, over many years, to create the more efficient, “greener,” and modern energy infrastructure that is now in place.

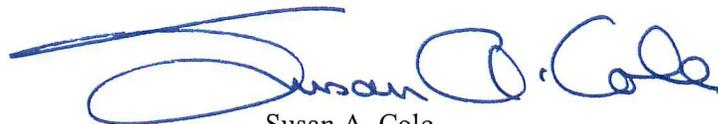
The Senate task group will not need to start *de novo* in regard to its deliberations on the matter. Other institutions have considered the issue, and the product of their work is, in many cases, publicly available. In addition, members of our faculty have very relevant expertise, including in investment management, ethics, and, with regard to the fossil fuel question specifically, in the science of sustainability and the environment. Finally, Jon Rosenhein, Vice President for Finance and Treasurer, has already developed a file containing a wealth of information on this topic, and I have asked him to serve as a technical resource to the Senate on this matter, and I know he will do everything possible to provide what you may need. In addition, Shawn Connolly, Vice President for University Facilities, is a highly trained expert on energy matters generally and on the energy-related operations of the University, and he, too, will be available to the Senate working group.

The attached Appendix A is a non-exhaustive catalog of other institutional positions on the question of fossil fuel divestment and provides a sense of the different perspectives and approaches taken in recent years at other institutions. I emphasize that this summary is merely to provide a flavor of some of the approaches taken by other institutions; there are fuller reports and many more publicly available documents that the task group will want to review.

I would appreciate your letting me know by October 31, 2017 if the University Senate is willing to take up the consideration of this matter within a time frame that would have the Senate providing its recommendations to me by the beginning of March. I would also be interested in knowing the membership of any task group you might wish to form. If you think it would be useful or helpful, I would be pleased to host an initial briefing meeting, including yourself, the task group, and Vice Presidents Rosenhein and Connolly, as soon as possible.

I look forward to hearing from you.

Sincerely,



Susan A. Cole  
President

Attachments

SAC: pf

c: Provost Willard Gingerich  
Vice President Jon Rosenhein  
Vice President Shawn Connolly

Bill #S2017-368

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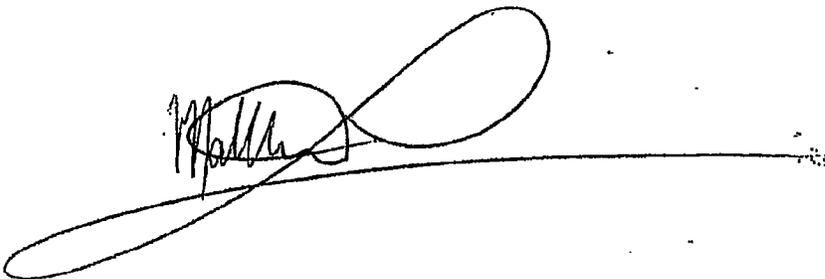
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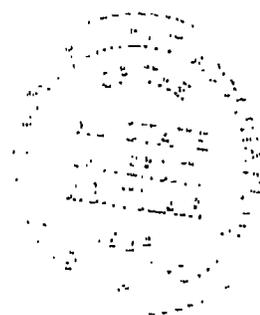
Submitted by:  
Matthew Kelly  
SGA Legislator  
April 3rd, 2017



Matthew B. Lerman  
Executive President

MAY 03 2017

Student Government Association  
Montclair State University  
2016-2017



# Attachment C

## **RECOMMENDATION**

*Passed by the University Senate March 28th, 2018*

**Task Force on Socially Responsible Investment Policy: Erik Jacobson, Julian Keenan, Gary Kleinman, Pankaj Lal, Anthony Pemberton (Chairperson), John Specchio**

### **Introduction**

Montclair State University hopes to encourage an environment wherein our faculty, administrators, staff, and students, as well as the Montclair community are committed to the pursuit of knowledge and social justice. To achieve this, Montclair State University should carefully choose which companies and industries it will invest in and support. These companies should hold to the same moral standards of social justice as Montclair State University. The degree of social, environmental, and economic harms caused by the actions of such companies should be subjected to regular evaluation to ensure they maintain these standards. It is important to divest in companies that do not hold up to these standards in order to mitigate palpable social and environmental harms arising from their activities. Similarly, it is important to engage companies by encouraging adoption of policies which protect social justice and to support those companies who share the same values as the University, through financial investment.

Criteria for divestment can include the following: (1) The actions or inactions of the company are deemed morally unjust, (2) The associated social harm is inconsistent with the University's principles, and (3) The divestment will have a meaningful impact towards correcting the social and environmental harms. As the University Senate, we believe that it is important to divest from, and refrain from investing in, companies that do not adhere to the social and environmental standards and expectations of Montclair State University.

Socially responsible investment is important not only to complement the ideals of the University, but also to encourage more responsible and forward-thinking practices in the corporate environment. This investment practice holds companies to socially just standards, encourages transparency in industry policies and practices, and provides incentives for corporations to pursue their own socially responsible principles.

## **I. Divestment from Fossil-Fuel Companies**

- To acknowledge personal responsibility in climate change, ocean acidification, and human health effects of polluted air and make a meaningful contribution to the renewable energy effort that mitigates these impacts, Montclair State University should divest from, and refrain from investing in, domestic and foreign companies that primarily produce fossil fuels; i.e., coal, gas, and oil.
- Montclair State University should divest from, and refrain from investing in or participating with service and companies financially supporting the Keystone and Dakota pipelines. This action would signify the importance of, and Montclair State University's commitment to, the global effort to reduce the human carbon footprint and protect life on land and in the ocean.

### **Brief Justification**

Production of carbon dioxide due to the burning of fossil fuels is connected to an accelerated increase in global temperatures. Between both population and industrial growth, this continued accumulation of greenhouse gases in the atmosphere is a growing concern connected with climate change. Climate change has impacted sea-level rise and acidity, increased human mortality from more severe heat waves, length of seasons and vegetative productivity, terrestrial and marine species biological habits and success, weather patterns and storm severity, and many other systems that are often taken for granted. The human impacts are also unevenly distributed, disproportionately affecting the poor, both domestically and internationally. While the effects of climate change may be gradual and seem insignificant, these effects will compound and accumulate, leading to even more drastic changes to our integrated earth systems. The effects and timeline of climate change may be unpredictable but the ocean-modulated lag in the response of the Earth system means that it is both necessary and economically optimal to make meaningful interventions now, before these detrimental climate impacts make irreversible changes to our way of life. There are both natural and anthropogenic influences on climate; we must acknowledge our role in this trend and encourage lifestyle choices that reduce our reliance on the burning of fossil fuels. It is important to do so both for the environment we live in as well as the more vulnerable and sensitive areas of the world, such as the Arctic. Mitigation strategies for carbon dioxide accumulation include replacing carbon-based fuels with sources of renewable energy (solar, wind, geothermal). There are significant challenges to make these changes, and the transition from fossil fuels to renewable energy will take many years. Air pollution is a major environmental risk to health. Reducing air pollution reduces the burden of disease from stroke, heart disease, lung cancer, and both chronic and acute respiratory diseases, including asthma.

Exposure to air pollution from fossil fuel combustion products over both short and long terms has been associated with a wide range of human health effects, including increased respiratory symptoms, heart and lung diseases, and premature death. Hazardous (or toxic) air pollutants may cause cancer or other serious health effects, such as reproductive effects or birth defects. Other effects include impacts on soils and water, crops and other vegetation, man-made materials (such as buildings and cars), animals and other wildlife, visibility, and climate.

The primary national U.S. air quality policy goal is to provide an environment where all people regardless of race, color, national origin, or income enjoy the same degree of protection from environmental and health hazards and equal access to the decision-making process to maintain a healthy environment in which to live, learn, and work. Most sources of outdoor air pollution are beyond the control of individuals and demand action by institutions, cities, as well as national and international policymakers in the transport, energy waste management, buildings and agriculture sectors.

## **II. Investment in Green and Renewable Energy and Transportation**

- To make a meaningful contribution to renewable energy efforts, Montclair State University should invest in companies supporting and/or producing low-impact energy and transportation efforts. These efforts include, but are not limited to, solar, wind, geothermal, and hybrid technologies and energy production; the realisation of energy use efficiencies in all kinds of buildings; and the encouragement of low-carbon, low-impact transportation alternatives (including walking, cycling, public transportation, and the electrification of private vehicles, that has recently become feasible).
- The University should invest in companies involved in recycling raw materials as well as companies committed to supporting and/or making products out of recycled goods.

### **Brief Justification**

In line with the overall concern regarding climate change and the associated negative environmental effects of burning fossil fuels, is the importance of supporting those industries that are committed to producing and/or financially supporting clean or 'green' energy and related technologies. The only way to realistically mitigate the negative effects of climate change is to encourage lifestyle changes that make this possible. Clean-energy technologies are essential to this adaptation. By financially supporting companies that produce low-impact energy, products, and technologies we make a direct contribution to the fight against climate change, ocean acidification, and harmful air quality. Similarly, supporting companies who also financially support these pursuits helps add to the vitality and success of clean energy efforts.

### **III. Future Consideration of Ongoing and Emerging Issues Regarding Social Responsibility**

- We recommend that the Task Force for Socially Responsible Investment become a standing committee of the Senate. It would be a conduit for the student body to communicate its concerns about University investments and to continue the conversation with the Administration about the sponsorship of companies that do not meet stated socially just and environmental standards.

#### **Brief Justification**

In following the overall principles of socially responsible investments, Montclair State University must consider other aspects of social injustices. While mitigating climate disruption, ocean acidification, and the human health impacts of polluted air via limiting use of fossil fuel is a popular subject in the science and political communities, there are other subjects of concern that may require attention in the future. Some potential issues to consider include investment or divestment from companies whose practices have an impact (positive or negative) in the following areas:

- a. Sustainable Agriculture/Farming
- b. Food and Water Security
- c. Ecosystem Support
- d. Access to Preventative Care (e.g., Pharmaceutical Companies, Insurance Industry, etc.)
- e. Promotion of Public Health (e.g., Alcohol and Tobacco Companies)
- f. Prison and Sentencing Reform (e.g. For Profit Prison Industry)

These are only suggested topics and based on the interest of students, faculty, and staff the standing committee can pursue further investigation and deliberation leading to other recommendations.

**Additional Resources are provided on the following google drive:**

<https://drive.google.com/drive/folders/1qbs5IHodIjzmjdtKLOLaK0uioqMSVhXF?usp=sharing>

1. Listing of hundreds of Universities general policies, most of which include a section on sustainable investments: <https://stars.aashe.org/institutions/participants-and-reports/>
2. Do we need Advisory Committee on Socially Responsible Investing? Something like Columbia has. Columbia 2016-2017 SRI Committee Annual Report is uploaded in Other Institutions Research Folder
3. NJ Senate Resolution 96 which urges New Jersey colleges and universities to sign climate change initiative. Resolution commended Montclair State University. This has been uploaded in Files Folder.
4. American University Interim Report by Advisory Committee on SRI Other Institutions Research Folder
5. Brown University Report on Investment Responsibility Other Institutions Research Folder
6. Georgetown University Principles and Guidelines Other Institutions Research Folder
7. University of Washington Discussion of Draft Divestment Guideline and Advisory Committee on Socially Responsible Investing Other Institutions Research Folder
8. EPA Montclair State University 2008 MOU
9. EPA Montclair State University 2014 report
10. The New Jersey Department of Environmental Protection Scientific Advisory Board (Climate and Atmospheric Sciences Standing Committee) published a 2016 report investigating which aspects of climate change should be considered at this point to be inevitable: <http://www.state.nj.us/dep/sab/NJDEP-SAB-climate-final-2016.pdf>

# Attachment D

**Investment Policy Statement**  
**Non-Cash Investment Portfolio**  
**Montclair State University**

The purpose of this Investment Policy Statement ("Policy") is to identify the policies that will govern Montclair State University's ("University") non-cash investment portfolio ("Portfolio").

**I. Investment Objectives**

The investment objectives are provided as general guidelines by which the performance of the Portfolio will be judged. It is expected that this Investment Policy Statement will be changed infrequently. In particular, short-term changes in the financial markets should not require adjustments to this Policy.

Operating cash of the University necessary to fund annual operating expenses and other disbursements within the fiscal year shall be invested in the New Jersey Cash Management Fund to the extent it is not needed in the operating bank account to cover disbursements from the account. Other cash resources not expected to be needed for annual operating expenses or other short-term needs comprise the Portfolio and will be invested in accordance with the guidelines that follow.

Achieving these objectives will require the Portfolio to assume a degree of risk, a short- to intermediate-term investment horizon, and diversification among asset classes and investment strategies.

- 1. Time Horizon and Distributions:** The Portfolio's time horizon is one to five years. The University may take distributions from the Portfolio's corpus, but it is unlikely these distributions will diminish the Portfolio's corpus meaningfully within a rolling five-year time frame.
- 2. Return Objective:** The objective of the Portfolio is a blend of capital preservation, capital appreciation, and income generation over the Time Horizon specified above. Specifically, the Total Rate of Return (capital appreciation and income), net of fees, seeks to exceed the annual rate of inflation as measured by the Consumer Price Index for All Urban Consumers, Seasonally Adjusted ("CPI-U"), by 0.75% over a rolling five year period.
- 3. Risk:** The Portfolio takes risks commensurate with the Return Objective. Statistics used to assist in a review of the Portfolio's risk include, but are not limited to, standard deviation, alpha, beta and the Sharpe ratio. The Portfolio seeks to maximize alpha and the Sharpe ratio.

## II. Investment Guidelines

Unless otherwise authorized in writing, the following investment guidelines will control the investment activities of the Portfolio. These guidelines assume a fully invested portfolio. The percentages allocated to each asset class may vary from the target allocations depending on market conditions.

**Asset Allocation:** The following asset classes, target allocation percentages and ranges will be used as guidelines for the Portfolio.

Asset Class	Target Allocation	Range
Cash & Money Market Funds	0.0%	0.0% to 10.0%
Short Duration Fixed Income	85.0%	75.0% to 95.0%
Domestic Equities	10.0%	0.0% to 15.0%
International Equities	2.0%	0.0% to 7.0%
Real Assets Equities	3.0%	0.0% to 8.0%

**Policy Benchmark:** The following blended index will be used as the Policy Benchmark for the Portfolio:

Asset Class	Index	Weight
Cash & Money Market Funds	BofAML US Treasury Bill 3 Mon Index	0.0%
Short Duration Fixed Income	BofAML US Treasuries 1-3 Years Index	85.0%
Domestic Equities	Russell 3000 Index	10.0%
International Equities	MSCI ACWI ex USA NR	2.0%
Real Assets Equities	Real Assets Blended Index	3.0%

**Portfolio Rebalancing:** The Portfolio will be reviewed for rebalancing at least annually in accordance with the Portfolio's investment objectives to maintain the asset allocation within the ranges described above.

**Investment Strategy Identification:** The Portfolio's assets are managed by one or more third-party investment managers via separately managed accounts ("Managers"), and in mutual funds, and exchange traded funds/notes (collectively, "Funds").

Investment strategies ("Strategies") will be identified based on those which have passed the research process of the University's investment consultant ("Consultant").

## III. Performance Measurement and Monitoring

The Portfolio's success will be judged by its overall total return and the risk taken relative to the Policy Benchmark, not by the price movement of any one particular security or Strategy. A benchmark index will be determined for each Strategy before an investment is made, and the performance objective with respect to that benchmark index will be established. Both the

Portfolio and the Strategies will be reviewed quarterly for both quantitative and qualitative results.

### **Review of Strategies**

The Portfolio and its Strategies will be reviewed on an ongoing basis. The University will receive quarterly updates from its Consultant on performance of the Portfolio and Strategies. Qualitative and quantitative criteria and metrics will be reviewed. Performance of the Portfolio and the Strategies will be measured relative to the Policy Benchmark and the Strategy benchmark, respectively.

While the University intends to fairly evaluate the Portfolio and underlying performance of the Portfolio and Strategies over the agreed period of evaluation, the University reserves the right to change or terminate the Strategies for any reason, at any time. Reasons for termination may include, but are not limited to:

- A violation of the risk guidelines or investment parameters described in the Manager Specific Investment Policy Statement, as applicable
- A change in investment management firm ownership
- A change in portfolio manager(s)
- A material change in the investment process
- An increase in the fee charged by the Manager or Fund
- A material change in the asset base of the firm/Strategy that may impact future performance
- Underperformance relative to a benchmark
- A review of risk measures relative to the Policy and Strategy Benchmarks

### **IV. Responsibilities of the Custodian Bank**

The University will engage a qualified custodian bank ("Custodian") to hold the assets of the Portfolio. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.

## **V. Responsibilities of the Investment Consultant**

The University will engage an independent investment consultant (“Consultant”) for the purpose of advising it on matters related to the implementation, oversight and reporting on the Portfolio and Strategies. The Consultant will participate in the following:

1. Assisting the University in identifying investment objectives and guidelines including investment time horizon, risk tolerance, and asset allocation;
2. Identifying Strategies for managing the Portfolio, defining parameters for periodic performance reporting that will be used to monitor investment results and compliance; and
3. Monitoring and evaluating the Portfolio’s performance versus the Policy and Strategy Benchmarks.

## **VI. Responsibilities of Managers**

Managers will be responsible for making all discretionary investment decisions regarding assets placed under their jurisdiction and will be held accountable for achieving the investment objectives specific to its Strategy.

All investments made by the Managers shall be in accordance with the guidelines established in its Manager Specific Investment Policy Statement. Subject to pursuing the stated objective and adherence with the Portfolio’s guidelines, the Managers will have complete investment discretion over the assets in its portfolio while ensuring that the assets are invested with care, skill, prudence, and diligence.

## **VII. Responsibilities of the University**

The University’s Board of Trustees is responsible for approving this Investment Policy Statement, although it may delegate this authority to the Audit, Finance and Investment Committee (“Committee”). The Committee shall review this Policy at least annually to determine whether the stated investment objectives are relevant. It shall review the results of the Portfolio in compliance with the requirements of this Policy. The Committee shall oversee the performance of the Portfolio and Strategies. The Committee shall meet at least twice a year. The Committee shall meet with representatives from Strategies when it deems appropriate. The Vice President for Finance and Treasurer shall provide summary performance results and status of the investment portfolio to the Committee as requested, but at least quarterly.

## VIII. Manager and Portfolio Restrictions

Managers engaged to manage the Portfolio's assets will be provided with a Manager Specific Investment Policy Statement for their assignment. In the event of a conflict between the Manager Specific Investment Policy Statement and the Investment Policy Statement for the Portfolio, the Manager Specific Investment Policy Statement shall prevail. The Vice President for Finance and Treasurer must approve any deviation from this Investment Policy Statement in writing. However, should any of these principles and restrictions at any time involve a risk to the integrity of assets under management, it is the Manager's responsibility to notify, as soon as reasonably practicable, the University and its Consultant to recommend a suitable modification to the Portfolio. The following restrictions apply to those assets managed in a separate account.

### **Cash and Cash Equivalents**

All investments must be maintained in the Short-Term Investment Fund (STIF) managed by the Custodian.

**Quality:** Money market funds or similar investment vehicles which must be rated A-1 by S&P and P-1 by Moody's, if outside of the Custodian's STIF.

These Portfolio restrictions may or may not be implemented by Funds; as such investment vehicles are not tailored to any individual investors' circumstance, policies, restrictions or guidelines.

## IX. Reporting

**Monthly:** The University will instruct the Custodian to provide the University and the Consultant with copies of the month-end statements, typically by the 15<sup>th</sup> business day of each month. Managers shall also provide monthly statements of transactions and market valuation of portfolio assets.

**Quarterly:** The Consultant shall offer to meet with the University to discuss the Portfolio's performance results, investment strategy, Strategy organizational changes and other pertinent quantitative and qualitative metrics and criteria. Consultant shall provide the University with a report outlining the Portfolio's compliance with the Investment Policy Statement.

Managers shall make themselves available to meet, in person or by telephone, with the Vice President for Finance and Treasurer or the Consultant no less than quarterly and shall be available for regular telephone contact or email communications. Manager shall provide a letter of compliance with Investment Policy Statement.

Managers and the Consultant shall provide the University with a review of performance, net of fees, relative to an appropriate Strategy Benchmark as agreed to by the Vice President for Finance and Treasurer.

**Other:** The Consultant and Managers will provide to the University timely telephonic and/or written advice when it believes important information, such as unusual market activity, is causing, or may cause, material impact on the portfolio.

Approved by: Board of Trustees

Date approved: April 7, 2000

Date revised: June 13, 2002

Date revised: October 31, 2002

Date revised: June 9, 2005

Date revised: December 4, 2008

Date revised: December 9, 2010

Date revised: November 1, 2012

Date revised: December 11, 2014

Date revised: February 5, 2015

Date revised: October 25, 2017

## APPENDIX

### Index Definitions

**BofAML US 3-Month Treasury Bill Index:** This index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. While the index will often hold the Treasury Bill issued at the most recent 3-month auction, it is also possible for a seasoned 6-month Bill to be selected.

**BofAML US Treasuries 1-3 Years Index:** This index is a subset of the BofA Merrill Lynch U.S. Treasury Index. Individual securities must be rated investment grade using Moody's, S&P and Fitch and have less than 3 years remaining until maturity.

**BofA Merrill Lynch U.S. Treasury Index:** This index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$1 billion. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Bills, inflation-linked debt and strips are excluded from the Index; however, original issues zero coupon bonds are included in the index and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped.

**BBgBarc US Aggregate Bond TR USD:** This index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. To qualify for inclusion, a bond or security must have at least one year to final maturity, and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

**CPI-U (Consumer Price Index for All Urban Consumers, Seasonally Adjusted, Non-Annualized for periods less than 1 year):** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Released monthly by the U.S. Department of Labor's Bureau of Labor Statistics, this index is commonly used to measure inflation.

**Dow Jones Brookfield Global Infrastructure TR Index:** The index measures the stock performance of globally- domiciled companies whose primary business is the ownership and operation of infrastructure assets. The index covers sectors of the infrastructure market including airports, toll roads, water, ports, communications, electricity transmission and distribution, oil & gas storage & distribution and diversified. The index excludes MLPs. Index components are required to have more than 70% of estimated cash flows derived from infrastructure businesses, a float-adjusted market capitalization in excess of \$500 million, a developed market listing and three month average daily trading volume in excess of \$1million. The index is weighted by float-adjusted market capitalization.

**FTSE EPRA/NAREIT Developed NR USD Index:** This index is calculated by FTSE in association with EPRA, APREA and NAREIT and is designed to track the performance of listed real estate companies and REITS worldwide. Index constituents are free-float adjusted and screened for liquidity, size and revenue. The index series is calculated in accordance with the industry Classification Benchmark (ICB), a global standard developed in partnership between FTSE Group and Dow Jones Indices. Dividends are reinvested net of the maximum (no treaty) withholding tax rates and rates that reflect double taxation treaties.

**LBMA Gold Price PM Index:** this index is created by the ICE Benchmark Administration (IBA), as appointed by the London Bullion Market Association ("LBMA"). The price for a Pricing Date will be that day's afternoon (3:00 pm London time) London Gold price per troy ounce of Gold for delivery in London. For periods prior to March 20, 2015, the London Fix Gold PM Index was used. This index was created by London Gold Market Fixing Ltd.

**MSCI ACWI ex USA NR (USD) Index:** This index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States. The MSCI ACWI consists of 46 country indices comprising 22 developed and 24 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. This index reinvests dividends net of withholding taxes. **Policy Benchmark:** this blended benchmark is composed of 85.0% BofAML US Treasuries 1-3 Years Index, 10.0% Russell 3000 Index, 1.0% MSCI All Countries World ex USA NR Index, and 4.0% Real Assets Blended Index, rebalanced monthly.

**Real Assets Blended Index:** this blended benchmark is composed of 30% FTSE EPRA/NAREIT Developed TR USD Index, 30% S&P Global Natural Resources TR USD Index, 30% DJ Brookfield Global Infrastructure, 10% LBMA Gold Price PM Index, rebalanced monthly.

**Russell 3000 Index:** Measures the performance of the 3,000 largest U.S. companies based on total market capitalization representing approximately 98% of the investable U.S. equity market.

**S&P Global Natural Resources NR USD Index:** This index combines the S&P Global Natural Resources – Agriculture Index, the S&P Global Natural Resources – Energy Index and the S&P Global Natural Resources – Metals and Mining Index. In order for companies to be eligible for this index they must have a total market capitalization above US\$ 1 billion at each rebalancing, a six-month average daily trading value above US\$ 10 million at each rebalancing and must trade on a developed exchange. The index uses a modified market cap weighting scheme. Constituent weights are driven by size and no single stock has a weight of more than 10% in the index. Net return reinvested is reflective of the return where dividends are reinvested after the deduction of withholding tax.

## Glossary

**Alpha:** measures the return that is not considered attributable to general market movements. It is used to evaluate what portion of a fund's performance can be attributed specifically to the manager. The higher the alpha, the greater the portion of the fund's performance that can be attributed to the manager's skill or luck.

**Beta:** measures risk attributed to market movements. If a portfolio's beta is 1, the market's expected risk level and the portfolio's expected risk level are considered the same. A portfolio with a beta greater than 1 is thought to be riskier than the market; a portfolio with a beta less than 1 is thought to be less risky than the market.

**Custodian:** A financial institution that holds client securities for safekeeping.

**Moody's Investors Service:** A provider of credit ratings, research, and risk analysis. The firm's ratings and analysis track debt covering more than 120 sovereign nations, approximately 11,000 corporate issuers, 21,000 public finance issuers, and 72,000 structured finance obligations. Moody's Investors Service is a subsidiary of Moody's Corporation (NYSE: MCO). Gradations of creditworthiness are indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same. (Source: Moody's, for more information, please visit: <https://www.moody.com/ratings-process/Ratings-Definitions/002002>).

**Sharpe Ratio:** measures the amount of return earned above the risk-free rate for each unit of risk taken. It is calculated by dividing the portfolio's average return less the risk-free rate by the standard deviation of the portfolio. Typically, the higher the Sharpe ratio, the better the investment's performance relative to its risk.

**Short-Term Investment Fund (STIF)/Money Market Fund:** A fund composed of securities typically maturing in one year or less at the time of issuance. These funds may include, but are not limited to, the following: Treasury bills, U.S. government and agency securities, commercial paper, time deposits, banker's acceptances, certificates of deposits, repurchase agreements, and reverse repurchase agreements.

**S&P Global Ratings:** A provider of credit ratings. They have more than 1 million credit ratings outstanding on government, corporate, financial sector and structured finance entities and securities. (Source: S&P Global. For more information, please visit: [https://www.spratings.com/en\\_US/understanding-ratings#thirdPage](https://www.spratings.com/en_US/understanding-ratings#thirdPage)).

**Standard Deviation (Volatility):** measures the historical variability of returns from its average. A higher standard deviation means a history of greater variability and uncertainty of returns and therefore more risk.