



Eastern Washington University Foundation

Asset Management Policy

Reviewed March 12, 2019

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I. Purpose

In accordance with the standards of care and prudence within the Uniform Prudent Management of Institutional Funds Act (UPMIFA), this document outlines the asset allocation policy and performance objectives for the EWU Foundation (“Foundation”) Endowment Pool and supersedes any prior adopted policies.

The selection of asset classes, the amount invested in each, and the mix among these is the greatest source of return and risk to the Foundation Endowment Pool. Therefore, the apportionment and allocation is the basis of the investment policy. The asset allocation policy, when viewed along with the respective investment policies in each asset class and monitored and measured against agreed upon benchmarks, constitutes the Board of Directors’ view of a prudent and well-reasoned approach to the management of the entrusted funds.

II. Investment Goal

The overall investment goal of the Foundation is to adhere to sound investment strategies in order to provide prudent stewardship of assets donors have entrusted for the benefit of Eastern Washington University.

III. Responsibilities of the Foundation Investment Committee

It is the responsibility of the Investment Committee to select, monitor and evaluate the performance of each Investment Advisor (Schedule B); to determine the overall allocation of the assets in the Endowment Pool; and to adhere to the Foundation Directors Conflict of Interest Policy. The Investment Committee has a responsibility to recommend the hiring, retaining and termination of an Investment Advisor.

The Investment Committee practices due diligence in the recommendation of an investment manager. Selection criteria are clearly defined, the RFP for services widely disbursed and the interview/selection process highly collaborative. During the process the EWU Foundation Asset Management Policy is discussed with a keen focus on the investment asset allocation guidelines and performance expectations.

The Investment Committee will make clear the investment goals, asset allocation schematic, financial condition, and risk tolerance parameters during the selection process, at the time of hire, within the associated Foundation policies, and within the contract with the Investment Manager.

Performance reports shall be compiled at least quarterly and communicated to the Investment Committee and the Executive Committee for review. The investment

performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks, Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in Asset Management Policy.

The EWU Foundation Board of Directors reserves the right to terminate a manager for any reason, including the following:

- Violating asset allocation guidelines or mandates.
- Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established.
- Failure to adhere to any aspect of the Asset Management Policy, including communication and reporting requirements.
- Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

To meet this responsibility adequately the Investment Committee will meet on a regular basis as determined by the committee, but not less than semi-annually. The Investment Advisor(s) should formally present performance information in person to the Investment Committee quarterly at the discretion of the committee.

IV. Responsibilities of the Investment Advisor

The Investment Advisor is responsible for the day to day investment management of assets in accordance with this Investment Policy. The Investment Advisor shall invest and rebalance the portfolio's asset categories so that they are consistent with the stated Asset Management Policy and Schedule.

Any Investment Advisor hired will assist the Investment Committee with advice and guidance to achieve the investment objectives set forth within this Policy Statement. In addition, the Investment Advisor will monitor the performance and investment process showing performance against the benchmarks to assure that the objectives and guidelines are maintained and accomplished.

V. Policy Statement

In order to fulfill the stewardship and total return goals of the Foundation, the policy of the Investment Committee should include:

1. A long-term focus both in terms of expected rates of return and

distributions for the funds under supervision by using one, three and five year moving averages for principal growth and income measured against suitable benchmarks selected by the Investment Committee and approved by the board.

2. Risk management: price volatility (beta), price-to-earnings ratio (P/E) and P/E to growth rate ratio standards should be similar to those of the benchmark risk analytics.
3. Asset classes providing diversification.

VI. Overview of Primary Assets

The EWU Foundation must manage cash, endowments and the endowment pool, and trusts on which it is named as the trustee for the benefit of Eastern Washington University.

a. Operating Capital (Cash)

i. Investments

Cash should be managed to meet the liquidity requirements for disbursements. The overriding objective is liquidity. A minimum amount to be held in deposit accounts should be set by the Finance Committee. All cash in this account should be swept nightly for overnight investments. Funds in excess of this minimum amount should be invested in intermediate term cash vehicles for no more than 90 days.

ii. Earnings

The portions belonging to the endowment pool shall be allocated monthly in keeping with donor intent. All other earnings (i.e. on unrestricted and temporarily restricted accounts not associated with an endowment) are considered unrestricted.

An exception to allow a restricted account to earn interest may be granted by the Executive Director with the concurrence of the Finance Committee. These funds will be invested in a suitable short term investment vehicle. Restricted funds are given by the donor with the intent the receiving program put the funds to use.

iii. Transfers to Endowment

On a quarterly basis, monies earmarked for endowed accounts will be transferred into the endowment pool for investment. Quarterly transfer period will be the first business day in October, January, April, and July.

b. Endowment Pool

The endowment pool shall consist of readily marketable assets. Assets that cannot or will not quickly be converted to cash equivalents will be held separate from the investment pool, as gains and/or losses more properly relate to the fund to which asset was donated. Pledges are considered assets when paid and received into the endowment pool.

The endowment pool shall have an asset balance suitable for an endowment that will exist in perpetuity. The Investment Committee shall select or create benchmarks to measure and analyze performance of the endowment pool. The comparison of actual results to the benchmark shall be part of the report to the Foundation Executive Committee and full Foundation Board of Directors and this report shall be made at least annually.

i. Asset Allocation

The asset allocation target and range (schedule A) is established by the Investment Committee and matches the broad allocation percentages defined in the performance benchmark objective. These objectives must be considered at all times when making investment decisions.

The range around the targets is intended to keep the actual allocation close to the target while allowing for limited discretionary investment advisor flexibility. The asset mix may deviate from the target as shown below. Deviations outside the policy range require written notice from the Investment Advisor, along with a proposed plan for an immediate rebalance back to the long-term range.

The total value of assets held in equities should not exceed 80% of the total investment pool. The target mix represents a long-term asset allocation strategy for the endowment period.

When the asset class falls outside of its range, the goal of rebalancing will be to meet the target allocation with consideration of the other remaining asset classes. If necessary, the Investment Advisor will propose a rebalancing strategy to the Investment Committee.

ii. Performance Benchmark Objective

The Foundation Endowment investment goal is to match or exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The performance benchmark will adjust in line with

the Board of Directors adopted asset allocations. Based on the current allocation the invested asset performance should be compared to the following benchmarks or another suitable benchmark that is agreed to by the committee and is in the committee's judgment, prudent.

- Russell 3000
- S & P – large cap proxy
- Russell 2000 – small cap proxy
- Russell Mid Cap – mid cap proxy
- MSCI EAFE – Int'l proxy
- BC U.S. Aggregate – bond market proxy

While seeking to match the return of the benchmark, the risk of the portfolio, as measured by beta, should not exceed the risk of the blended benchmark. The beta of the portfolio will be reported to the Investment Committee at least annually by the Investment Advisor.

If at any time the beta of the portfolio exceeds the beta of the blended benchmark, the Investment Advisor must explain the rationale behind the decision for the excess risk and the Investment Committee will consider this investment management action a material breach of contract. The Investment Advisor must take immediate corrective action. The Investment Committee will determine if other punitive actions should be considered.

iii. Asset Restrictions

Non Traditional asset classes: Assets falling into this category are at the discretion of the Investment Committee. The Investment Advisor must obtain prior approval from the Investment Committee before investing in these assets and must limit the exposure to less than 5%.

Quality of Bond Portfolio: All individual bonds should be rated Baa or BBB or better at purchase. If the rating of a bond falls below the equivalent of BBB the Investment Advisor will notify the Investment Committee and make a recommendation as to whether the bond should continue to be held. The Investment Committee will decide how to proceed. The average credit quality of the overall bond portfolio shall be no less than A. Regulated investment companies (Mutual Funds) are exempted from quality restrictions.

No more than 20% of the market value of the bond portfolio may be invested in foreign bonds.

Diversification: At no time shall any security purchased by an Investment Advisor exceed 5% of the market value, at cost, and 10%, at market value, of the total portfolio except for exchange traded or mutual funds.

Leverage: The use of leverage will not be permitted by the Investment Advisor. We recognize that certain approved assets may use leverage within the investment vehicle (hedge funds, mutual funds, etc.) but that use of leverage must be within the investment vehicle and not directed by the Investment Advisor and can have no rights to any other assets in the portfolio. There can be no right to call for additional funds.

iv. Unitized Pool

The endowment pool will be unitized. Similar to a mutual fund, gifts or transfers to funds enter the pool on a monthly basis through the purchase of shares at the unitized, or prorated, market value at the end of the prior month of all endowment pool assets. When funds are withdrawn, withdrawals are based on the unit market value of the investment pool at the end of the month prior to withdrawal. Gains or losses properly belonging to a particular fund will be allocated to that fund and not the pool as a whole.

Income is also unitized and allocated to participants based upon the number of shares owned. Income is distributed annually based upon the spending rate. Investment income in excess of the spending rate is reinvested in the pool. Any unspent distributions will generally be returned to principal at the end of the fiscal year.

v. Distribution & Fees

Endowment distribution and fee percentages are determined annually by the EWU Foundation Executive Committee in accordance with the Endowment Distribution and Fees Policy.

c. Endowments Not Pooled

EWU Foundation endowment accounts are pooled in order to improve performance and the Investment Committee's ability to oversee them, as well as reducing the overhead for Foundation staff to manage the funds.

On an exception basis, some endowments may be invested independent of the pool. This includes accounts waiting for state match, and other situations. With the exception of accounts waiting for state match, the minimum principal balance for independent endowments is \$100,000. Although invested separately, asset allocation and restrictions, performance benchmarks, distribution policy and fees mirror that of the endowment pool unless otherwise stated below.

- *Authority to grant:*

These separate investments may be approved by the Executive Director with the concurrence of the Investment Committee.

- *Investments:*

Investment mix will be consistent with current investment policy for the endowment pool, unless otherwise indicated. As an example, accounts waiting for state match are to be invested in short or intermediate term investments, based on estimated time when matching funds are likely to be available.

- *Receipt and disbursement of funds :*

New gifts will be transferred into the investment fund at least quarterly. Cash earnings until transfer are considered unrestricted.

Earnings made available for distribution will be transferred out of the investment to cash in July of each year.

- *Distributions*

Distributions will be in accordance with current spending rate policies. In order to use a 3 year a rolling average, these accounts will utilize the pool's historical unit values until separately invested for more than 3 years.

d. Trusts – EWUF as Trustee

The Trusts shall have an overall asset balance that recognizes the long-term holding period of charitable remainder unitrusts and annuities.

The primary need for earnings from this pool to fund net income distribution requirements and secondary to increase the total asset base of the trust is the objective.

At the formation of each new internally managed trust it shall be the responsibility of the Investment Committee to select funds to invest to accomplish the requirements of the trust.

The Investment Committee shall use prudent discretion in selecting financial institutions to hold and invest such funds, with consideration given to the donor's current Investment Advisors. For internally managed trusts, the individual Investment Advisors shall be required to meet with the Investment Committee at least once per year.

VII. Overview of Secondary Assets

Secondary classes of assets held by the Foundation include art, equipment, property, life insurance cash surrender value receivable, stock gifts in the process of being liquidated and gift pledges receivable. Of note, stock gifts are immediately converted to cash; and

property is either sold or transferred to EWU; in both of these cases, the proceeds are invested in accordance with the guidelines defined above;

VIII. Schedules

Schedule A – Asset Allocation (attached)

Schedule B – Statement of Managers Expectations & Communications (attached)

Schedule A – Asset Allocation

<i>Asset Category</i>	<i>Long Term Target</i>	<i>Long Term Range</i>
Equity	65%	60 – 70%
○ Domestic Equity*	55%	45 – 65%
○ Developed/Emerging International	10%	5 – 15%
<p>*To be invested with exposure to the entire US equity market including small, mid and large cap stocks. Within this allocation over 60% should be in large cap stocks (large cap includes “giant”).</p>		
Fixed Income	35%	20 – 40%
○ Core U.S. Investment Grade	25%	20 – 30%
○ High Yield	5%	5 – 10%
○ Inflation Protected	5%	5 – 10%
Cash	≤1%	≤1%
Total	100%	

Notes

- All allocations will appear in the portfolio at all times and will be within the “Long Term Range” boundaries.
- If rebalancing needs to take place, it will happen in December. Violations of the boundaries, if due to market action, will be tolerated in the interim.
- All mutual funds should be set to automatically reinvest all distributions into the fund making the distribution.

Schedule B – Statement of Managers Expectations and Communications

UPMIFA Compliance: Manager Expectations & Communication

The EWU Foundation delegates the management and investment of foundation funds to an external agent. In doing so, the EWU Foundation recognizes the responsibility to act in good faith and with the care that an ordinary prudent person in a like position would exercise under similar circumstances. This is accomplished via the following activities and associated processes for each:

Investment Manager Selection

The EWU Foundation practices due diligence in the selection of an investment manager. Selection criteria are clearly defined, the RFP for services widely disbursed and the interview/selection process highly collaborative. During the process the EWU Foundation Asset Management Policy is discussed with a keen focus on the investment asset allocation guidelines and performance expectations.

Establishment of Scope & Terms of the Delegation

The EWU Foundation will make clear the investment goals, asset allocation schematic, financial condition, and risk tolerance parameters during the selection process, at the time of hire, within the associated Foundation policies, and within the contract with the Investment Manager.

Review & Monitoring of the Agent's Performance

Performance reports shall be compiled at least quarterly and communicated to the Investment Committee and the Executive Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in Asset Management Policy. The EWU Foundation Board of Directors reserves the right to terminate a manager for any reason, including the following:

- Violating asset allocation guidelines or mandates.
- Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established.
- Failure to adhere to any aspect of the Asset Management Policy, including communication and reporting requirements.
- Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Review and Approval Dates

Originally Approved by EWU Foundation Board of Directors January 20, 2009
Approved as Amended by EWU Foundation Board of Directors October 21, 2010
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Reviewed by EWU Foundation Board of Directors June 18, 2013
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