

WESTERN ILLINOIS UNIVERSITY FOUNDATION
POLICY AND GUIDELINES
FOR INVESTMENT OF FOUNDATION FUNDS

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Foundation Board Executive
Committee September 16, 2000
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Introduction and Purpose

The intent of this Investment Policy Statement (“IPS”) is to delineate policies and procedures specific enough to define, implement, and manage an investment strategy along with control procedures that reflect the Board’s directives, thereby providing the Investment Committee (“Committee”) with clearly defined policies and objectives. These policies and objectives are intended to govern the investment activity, with sufficient flexibility in order to be practical.

In addition, the IPS will provide guidance to avoid unnecessary differences of opinion and resulting conflicts, minimize the possibility of missteps due to a lack of clear guidelines, establish a reasonable basis for measuring compliance, and establish and communicate reasonable and clear expectations with donors.

This IPS applies to all Foundation Funds of Western Illinois University Foundation (“Foundation”) including, but not limited to, the Endowment, the non-Endowment funds, and the Donor-Advised Fund.

Western Illinois University Foundation Goals

1. To establish Endowment investment guidelines and spending policies that will preserve the real (inflation adjusted) purchasing power of Endowment assets while providing a prudent, predictable, stable and constant stream of spendable income to carry out the Endowment specified purpose. If successfully implemented, these policies should produce both long-term growth of principal and increased resources that offset inflation.
2. Adherence to the Total Return concept of investment management. Total Return is defined as the aggregate sum of current income and changes in the market value of the assets under management. This means that capital gains or losses, whether realized or not, are combined with interest and dividend income to determine the return on a portfolio. Total Return is regarded as the best measure of the performance of the portfolio, and as an effective means to administer payout policy. This approach allows the investment managers to be less concerned about meeting current income requirements and allows them to concentrate on increasing income and principal over the long term.

Management of Endowment Investments

General Investment Considerations:

- **Risk:** The Committee will seek to limit the overall level of risk consistent with the chosen Policy Asset Allocation.
- **Liquidity:** The Endowment Fund does not have an explicit allocation to cash or cash equivalents.
- **Time Horizon:** The Endowment Fund has an infinite life. An investment Time Horizon of twenty-five years is appropriate.
- **Taxes:** The Endowment is tax-exempt.

- **Legal and Regulatory:** The State of Illinois has adopted the Uniform Prudent Management of Institutional Funds Act “UPMIFA”. UPMIFA requires each person responsible for managing and investing an institutional fund to manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. UPMIFA provides relief from trust law by permitting the Board to appropriate for expenditure so much of an endowment fund as the institution determines is prudent. In managing and investing an institutional fund, the following factors, if relevant, must be considered: 1) general economic conditions; 2) the possible effect of inflation or deflation; 3) the expected tax consequences, if any, of investment decisions or strategies; 3) the role that each investment or course of action plays within the overall investment portfolio of the fund; 4) the expected total return of income and the appreciation of investments; 5) other resources of the institution; 6) the needs of the institution and the fund to make distributions and to preserve capital; and 7) an asset’s special relationship or special value, if any, to the charitable purposes of the institution.

The fiduciary responsibility rests with the WIU Foundation Executive Committee with leadership from the Treasurer. The Executive Committee appoints an Investment Committee to assist the Treasurer. The Investment Committee recommends this and all investment policies to be used for Foundation funds.

In accomplishing Endowment investments goals, management by independent investment professionals may be utilized upon recommendation by the Investment Committee and approval by the Executive Committee. The Investment Committee, the Foundation Executive Committee, and the Foundation Executive Officer shall have joint obligation to:

1. Communicate the Foundation's Policy and Guidelines for Investment of Endowment Funds objectives to all independent investment professionals retained to manage the Foundation's Endowment assets.
2. Review all investments on a regular basis for performance and recommend changes as necessary to meet the investment objectives. In-depth measurement of performance against stated objectives should occur annually to evaluate results of the total Endowment pool, major classes of investment assets and the independent investment professionals retained to manage the Endowment assets. This could involve contracting the services of an unaffiliated organization (investment consultant) with recognized expertise in the field.
3. Establish performance goals for the total pool as well as separate categories of assets. Achievement of these goals is most appropriately determined over a full market cycle time period, generally five years. The following are performance goals and constraint guidelines placed on individual asset managers within specific asset classes:

All Managers

1. Active managers may be terminated if performance and/or tracking error deviates significantly with respect to the benchmark. (Tracking error is defined as the standard deviation of the excess returns).
2. Index managers shall be terminated if tracking error and/or performance deviate

moderately from the benchmark.

Domestic Equity

1. The maximum weighting, on a cost basis, in any one company for active managers is 10% of the portfolio value.
2. The maximum weighting to any particular economic sector should be no greater than 50% more than the appropriate benchmark's weighting. For example, if the appropriate benchmark's weighting to an economic sector is 12%, the manager may hold no more than 18% of the portfolio in that sector.
3. Trading and Execution: Managers should execute trades on a competitive basis, considering both commission and market impact, as compared to relative size funds.

Domestic Fixed Income

1. The maximum weighting, on a cost basis, in any one security for active managers is 10% of the portfolio value. This does not apply to U.S. government and agency issues.

International Equity and Fixed Income

1. The use of currency futures to enhance performance and/or hedge currency exposure by international and/or global managers is at the discretion of the manager in accordance with the prospectus of the investment product, provided the hedging in any one currency will never exceed the market value of the assets invested in the currency.

Alternative Investments

1. Alternative investment managers typically have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers; instead, the Committee may choose to terminate a manager, subject to the manager's liquidation policy, if they are dissatisfied with the manager and/or his strategy.

Asset Allocation

The single most important decision made by the Committee is the asset allocation decision. It is the responsibility of the Committee to recommend to the Board the policy asset allocation parameters, as presented in Appendix A, that offer the highest probability of achieving the investment objectives. The Committee, with guidance and recommendations from their Consultant, should review the policy asset allocation parameters, as presented in Appendix B, on an ongoing basis and recommend revisions as necessary.

The target asset allocation for traditional equity, fixed income, and liquid real assets within the policy asset allocation parameters will be determined by the Consultant, subject to the written approval of an authorized Foundation administrator, based in light of on-going trends, and based on comprehensive allocation studies completed by the Committee and the Consultant. The target asset allocation is designed to give balance to the overall structure of the investment program over a long-term investment time horizon.

The Consultant may change the target asset allocation for traditional equity, fixed income, and liquid real assets from time to time in its discretion, subject to the written approval of an authorized Foundation administrator, as market conditions warrant, as long as the target asset allocation stays within the Committee's approved policy asset allocation parameters. However, some factors may impact target allocation, thereby requiring an asset allocation review and possible rebalancing. Some of these factors include:

1. The Committee's assessment of the intermediate or long term outlook for different types of asset classes and styles,
2. The Consultant's assessment of the intermediate or long term outlook for different types of asset classes and styles,
3. Divergence in the performance of the different asset classes and styles,
4. Changes in the institution's objectives

It is also recognized that the return on the investment portfolios will be affected by the need for liquidity and access to funds.

Permissible Asset Classes

The Policy Asset Allocation of the Funds is expected to include a wide range of asset classes. These asset classes and their relative comparative indices are displayed in **Appendix B**. The asset classes include:

- Domestic Equity
- International Equity
- Emerging Markets Equity
- Fixed Income
- Real Assets
- Private Equity
- Hedge Funds
- Cash and Cash Equivalents

Portfolio Rebalancing

Since asset allocation is the most critical component of the Endowment's returns, it is desirable to rebalance the Endowment periodically to minimize deviations from the Policy Asset Allocation mix.

The Committee may rebalance the Endowment to achieve the Policy Asset Allocation at any time. However, the Endowment shall be rebalanced in the event any individual traditional asset class (equity, alternatives, or fixed income) differs from policy by more than 20% of the target weight, but with a minimum deviation threshold of 2% of the total portfolio value. (For example, if the Policy Asset Allocation for an asset class is 3% of the total portfolio, then the portfolio's actual allocation must be either below 1% or above 5% of the total portfolio before rebalancing is required.)

The Consultant will inform the Administration at the close of any month in which rebalancing the Endowment is necessary. The Consultant, together with the Administration, will complete

the rebalancing process. The Consultant will assist the Administration as needed in implementing such rebalancing.

Investment Guidelines

The funds must be invested at all times in strict compliance with applicable law, and in accordance with stated Foundation Policy and Guidelines for Investment of Endowment Funds.

Restrictions include the following:

1. All investments must be U.S. dollar denomination unless held by an investment manager retained by the Committee to manage an international portfolio.
2. No securities may be purchased or held which would jeopardize the Foundation's tax exempt status.
3. No securities may be purchased on margin or leverage.
4. No transactions in short sales will be made by individual money managers, except in the case of the fund of hedge funds manager(s) and Commonfund Multi-Strategy Equity Fund, and any other exceptions approved by the Committee.

Spending Policy

A 36-month moving average of the market value of Foundation Endowment assets as of the date of the distribution is the base for calculating the amount available for Endowment purposes and administrative expenses. The payout is limited to **6.50%**. From that figure 5% is made available for Endowment purposes. An additional 1.50% is retained for professional management fees, audit expenses, general administration of the Foundation, and a provision of an additional source of unrestricted resources to meet unforeseen needs of the Foundation and the University.

Total withdrawals from Endowment, expressed as a percentage of the fiscal year beginning and ending Endowment market value, are reported annually to the Board. These figures are reviewed in relation to figures from other comparable endowment pools as reported in the annual NACUBO Endowment Study.

Restricted Endowment income not utilized shall remain in the Endowment fund earnings account for use when earned income is not sufficient or for use in future years as long as conditions of use can be satisfied. Once Endowment income is transferred to an account for current use, such income is no longer subject to Endowment spending policies.

Should an existing Endowment account agreement specify spending all of the income, a special account status shall be established to insure compliance. Donors may stipulate that a portion of earnings be re-invested in the Endowment to help the Endowment grow.

Non-Endowment Funds

The non-Endowment Funds consist of excess current funds and student managed funds. The

student managed funds are designated and maintained by the School of Business. The excess current funds have been set aside with a more conservative and shorter term objectives than the Endowment. The investment guidelines need to follow these objectives with focusing more on fixed income and cash investments.

Conflict of Interest

All persons responsible for investment decisions or who are involved in the management of the Foundation or who are consulting to, or providing any advice whatsoever to the Committee shall disclose in writing at the beginning of any discussion or consideration by the Committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Committee may require such persons to remove themselves from the decision-making process.

Any members of the Committee responsible for investment decisions of the Foundation shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Committee. The intent of this provision is to eliminate conflicts of interest between Committee membership and the Foundation.

Members of the Foundation Board are frequently persons of wide-ranging business interests. Therefore, a prudent, independent investment decision process may result in investments in firms or organizations with which a member of the Foundation Board is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. An unaffiliated investment manager may invest in such securities. However, the following restrictions shall apply:

1. A member of Board shall not participate in the decision to purchase or sell securities of a firm with which such member is affiliated.
2. Investments will not be purchased from or sold to a member of the Board.

Procedure for Revising the Investment Policy Statement

It is important to update the IPS in response to financial, regulatory and legal trends and changes, as well as internal circumstances. Therefore, the IPS will be reviewed in full at least every three years by the Committee or more frequently, if conditions warrant. The Board must approve material changes to the Statement.

To assess whether the Asset Allocation and Asset Allocation Parameters still meet the objectives, given current market and economic projections and expected asset class and sector rates of return, the Asset Allocation will be reviewed at least annually. Changes in Asset Allocation can be approved by the Committee and will be updated in Appendix A of the IPS.

Delegation of Responsibilities

The Investment Committee's responsibilities include:

1. Reviewing recommendations from the Consultant and any Subcommittees,
2. Recommending investment policy for Board approval,

3. Selecting Investment Managers, Consultants, Custodians, Auditors, and other Advisors,
4. Developing investment policy guidelines,
5. Developing investment objectives and performance measurement standards that are consistent with the financial needs of the Foundation,
6. Determining the Policy Asset Allocation and rebalancing strategies and selecting the Investment Managers to meet the Foundation's objectives,
7. Reviewing and evaluating investment results in the context of predetermined performance standards, and implementing corrective action as needed,
8. Reporting to the Board, and
9. Establishing Spending Policy guidelines.

Consultant

The Committee may recommend the engagement of an independent investment-consulting firm to assist the Foundation in the attainment of the Endowment's objectives and to monitor compliance with the stated investment policies. The Consultant's responsibilities are as follows:

1. Assisting in the development of investment policies, objectives, and guidelines,
2. Preparing asset allocation analyses as necessary and recommending asset allocation strategies with respect to the Endowment's objectives,
3. Recommending Investment Managers (including search and selection),
4. Preparing and presenting performance evaluation reports,
5. Attending Committee meetings to present evaluation reports on a quarterly basis and at other meetings on an "as needed" basis,
6. Reviewing contracts and fees for both current and proposed Investment Managers,
7. Reviewing and developing special investment strategies that complement existing asset classes or strategies to be considered by the Committee,
8. Communicating investment policies and objectives to the Investment Managers, monitoring their adherence to such policies and reporting all violations,
9. Notifying the Committee of any significant changes in personnel or ownership of the consulting firm,
10. Notifying the Committee immediately of any litigation or violation of securities regulations in which any Investment Manager is involved, and
11. Notifying the Committee of any significant changes in portfolio managers, personnel or ownership of any investment management firm.

Investment Managers

The Investment Managers' general responsibilities include but are not limited to :

1. Investing assets under their management in accordance with agreed upon guidelines and restrictions,

2. Exercising discretionary authority over the assets entrusted to them, subject to these agreed upon guidelines and restrictions,
3. Providing written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a monthly basis in addition to other information as requested by the Committee or Consultant,
4. Voting proxies for the assets under management (companies held within the portfolio) in the best interest of the Funds, and
5. Annually providing to the Foundation either a copy of the investment advisor's form ADV Part II (SEC required disclosure document), a copy of the investment company's annual report, and/or a copy of the fund's updated prospectus (SEC requirement at the end of the fiscal year).

Custodian

The Custodians' responsibilities are as follows:

1. Providing timely reports detailing investment holdings and account transactions monthly to the Foundation and Consultant.
2. Providing an annual summary report to the Foundation and the Consultant within 30 days following each fiscal year end. The report will include the following:
 - a. Statement of all property on hand,
 - b. Statement of all property received representing contributions to the accounts,
 - c. Statement of all sales, redemptions, and principal payments,
 - d. Statement of all spending from the account,
 - e. Statement of all expenses paid,
 - f. Statement of all purchases, and
 - g. Statement of all income.
3. Establishing and maintaining accounts for Investment Managers of the Foundation,
4. Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of uninvested cash, etc., and
5. Preparing additional accounting reports as requested by the Committee or Consultant.

Appendix A
WIUF Policy Asset Allocation

Asset Class	Parameter Minimum Range	Target Asset Allocation	Parameter Maximum Range
Growth Assets			
US All/ Large Cap Stocks		4%	
US Large Cap Growth Stocks		4%	
US Large Cap Quality Stocks		9%	
<i>US Equity</i>		<i>17%</i>	
Int'l Large Cap Stocks		7%	
Int'l Large Cap Quality Stocks		6%	
Int'l Emerging Market Stocks		5%	
<i>Int'l Equity</i>		<i>18%</i>	
<i>Total Equity</i>	<i>26%</i>	<i>35%</i>	<i>44%</i>
Private Equity / Special Situations	10%	15%	20%
Total Growth Assets	37%	50%	63%
Risk Reduction Assets			
US Fixed Income	7%	12%	17%
Hedge Funds	15%	20%	25%
Total Risk Reduction Assets	24%	32%	40%
Inflation Protection Assets			
US Inflation Protected Fixed	0%	3%	8%
Real Assets	10%	15%	20%
Total Inflation Protection Assets	13%	18%	23%
Total		100%	

The Endowment will have an interim policy that allocates uncalled private equity across traditional equities and uncalled real assets partnership investments will be invested in other liquid inflation protection assets.

Appendix B

The Policy Asset Allocation of the Endowment is expected to include a wide range of asset classes. These asset classes and their relative comparative indices are displayed below.

COMPARATIVE INDICES FOR INVESTMENT MANAGERS

ASSET CLASS	COMPARATIVE INDEX
Equity	
<i>Domestic Equity</i>	
U.S. Stocks	MSCI Broad Mkt Index
U.S. Large Stocks	S&P 500
U.S. Large Value Stocks	Russell 1000 Value
U.S. Large Growth Stocks	Russell 1000 Growth
U.S. Mid Stocks	S&P MidCap 400
U.S. Small Stocks	Russell 2000
U.S. Small Value Stocks	Russell 2000 Value
<i>International Equity</i>	
Int'l Large/Mid Stocks	EAFE (\$US)
Int'l Small Stocks	Citigroup EMI EPAC
Emerging Mkt Stocks	MSCI Emg. Markets Free Index
Fixed Income	
Domestic Fixed Income	Barclays Capital Aggregate
Global Fixed Income	Citigroup World Gov't Bond (unhedged)
US Inflation Protected Fixed	Citigroup Inflation Linked Bond
US High Yield	Citigroup High Yield
Emerging Mkt Bonds	JPM Emerging Mkt Bond
Cash Equivalents	U.S. Treasury Bills
Alternatives	
U.S. Real Estate Investment Trusts	Wilshire REIT Index
Private Equity	Venture Economics or MSCI Broad Mkt Index
Absolute Return (Hedge Funds)	HFR Fund of Funds
Real Assets (timber, real estate, Natural resources, commodities)	CPI + 5%, DJ-UBS Commodity, S&P Natural Resources