

# **Investment Policy Statement**

**MINNESOTA STATE UNIVERSITY MOORHEAD  
FOUNDATION**

**August 15, 2024**

## **INTRODUCTION**

The overall financial philosophy of the Minnesota State University Moorhead Foundation (the "Foundation") is to invest its assets in a manner consistent with its mission and prudent fiduciary management. This statement of investment policies and objectives governs the management of the investment portfolio of the Foundation and other assets managed by the Foundation (together, the "Portfolio") and will be effective until modified by the Foundation's Investment & Finance Committee (the "Committee") and Board of Directors (the "Board"). It is not expected that the Investment Policy will change frequently.

Investments held in the Dragon Investment Fund are not covered in this policy. The Dragon Investment Fund is a separate initiative of the College of Business & Innovation.

The Committee has arrived at this Investment Policy through careful study of the returns and risks associated with various investment strategies, the current and projected financial obligations of the Foundation and growth goals after consulting with an outside OCIO (as defined below) as it deemed appropriate. This Investment Policy has been chosen as the most appropriate policy for achieving the financial objectives of the Foundation, which are described in the "Statement of Objectives" section of this document. However, subject to Executive Committee approval, the Committee shall be free to deviate from this Investment Policy when it concludes that it is prudent and in the interest of the Foundation to do so and may amend the Investment Policy at any time. The Committee has full discretionary authority for and is entitled to deference in its interpretation of this Investment Policy.

The Committee has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long term potential for appreciation of assets.

### **Fiduciary Duty**

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires fiduciaries to apply the standard of prudence "about each asset in the context of the portfolio of investments, as part of an overall investment strategy." All investment actions and decisions must be based solely on what is in the best interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Statement, UPMIFA states that the Committee is under a duty to the Foundation to manage the Foundation's assets as a prudent expert would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill and caution while being applied to investments, not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation. In making and implementing investment decisions, the Committee has a duty to diversify the investments unless, under special circumstances, the purposes of the Foundation are better served without diversifying. Further, the Committee may, at times, consider non-economic factors as they determine portfolio allocations, while never losing sight of the preeminent goal, as fiduciaries, to do what is best to maintain the intergenerational purchasing power of the endowment.

The assets of the Foundation will be invested in accordance with all applicable laws. The Committee will perform its duties in a manner consistent with fiduciary standards. Specifically:

- Duty of care
- Duty of loyalty
- Duty of obedience
- Duty to diversify investments

## **DUTIES AND RESPONSIBILITIES**

The Committee is responsible for developing investment policy and providing oversight of the investment process in a prudent manner. In carrying out these duties, the Committee may retain an OCIO as further discussed below to assist in managing the assets of the Foundation as set forth in an Investment Management Agreement (the "IMA"). The OCIO's role is set forth in the IMA and may include the provision of guidance to the Committee on matters pertaining to the investment of Foundation assets including the creation of the Investment Policy, investment selection, monitoring of performance and compliance with the Investment Policy. All decisions pertaining to the Investment Policy and guidelines for the Investment Policy's implementation will be made by the Committee. The OCIO may be engaged to have authority and responsibility to select appropriate investments in the specific asset classes mandated by this Investment Policy, in accordance with (and subject to) the terms of IMA.

### **Board of Directors**

The Board has the responsibility to ensure that investments are being managed properly. The Board delegates to the Committee the responsibilities listed above. Any recommendations regarding the selection or change of the Manager must be ratified by the Board.

### **Foundation's Investment & Finance Committee ("Committee")**

The Committee may retain a qualified OCIO to assist in the development and implementation of the Investment Policy.

1. Establish the Investment Policy of the Foundation – This includes, but is not limited to, allocation between growth, risk reduction and inflation protection Strategies, selection of acceptable asset classes and investment performance expectations.
2. Periodically review this Investment Policy and report back to the Board on any changes to the Investment Policy.
3. Meet on at least an annual basis with the OCIO to review investment performance, adherence to this Investment Policy and progress towards goals.
4. Report back to the Board with results of findings from reviews.
5. When necessary, make a recommendation to the Board on the selection or change of the OCIO.

### **Outsourced Chief Investment Officer ("OCIO")**

The Committee may retain an OCIO to assist the Committee in establishing the Investment Policy and guidelines contained in the Investment Policy.

In accordance with the terms of the IMA, the OCIO may be responsible for managing the asset allocation, determining investment strategy, and implementing through permissible investment vehicles and rebalancing where appropriate. The OCIO may also be responsible for monitoring asset allocation across and among asset classes and provide timely reporting to the Committee.

In accordance with the terms of the IMA, the OCIO may be delegated the discretion with respect to the investments utilized by the OCIO to implement the Foundation's strategy.

### **Custodian**

The Custodian(s) has possession of securities for safekeeping, for settlement of trades, and for the collection of income. In addition, the Custodian(s) is responsible for processing all cashflows and providing comprehensive monthly statements.

## STATEMENT OF OBJECTIVES

### Investment Objective

The primary objective of the Foundation is to preserve and augment purchasing power while providing a continuing and stable funding source to support the current and future mission of the Foundation. This objective has been established in conjunction with a comprehensive review of the current and projected spending and budget requirements.

### STATEMENT OF INVESTMENT OBJECTIVES AND TARGETS

The asset allocation will likely be the key determinant of the Foundation's returns over the long-term. Therefore, the Foundation will be diversified across multiple markets that are not similarly affected by economic, political or social developments. A globally diversified portfolio with uncorrelated returns from various assets should reduce the variability of returns across time.

The asset allocation established by this Investment Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature.

As described in the IMA, the OCIO implements through pooled investment vehicles, including mutual fund products, separately managed accounts, and/or other alternative fund products. The long-term target asset allocation for the Foundation is expressed in the IMA.

The funds of the Foundation are held in three portfolios - Long Term / Endowment, Short Term and Charitable Gift Annuity Reserves. Since each of these portfolios has a different purpose, each should have a different investment objective. The following tables outline these specific funds, allocations and objectives.

A description of each asset class and the role it plays in the portfolio is described below.

*Growth Strategies:* Investments that seek to provide equity-like, long-term capital appreciation while potentially recognizing substantial fluctuations in year-to-year performance. Examples include equities, higher yielding fixed income instruments, private equity, long biased hedge funds and opportunistic strategies.

*Risk Reduction Strategies:* Investments that seek to provide stability and reduce volatility. Examples include fixed income and non-directional hedge funds.

*Inflation Protection Strategies:* Investments that seek to provide a diversified inflation hedge and yield. Examples include public and private real asset and real estate strategies as well as Treasury Inflation-Protected Securities ("TIPS").

*Cash Equivalent Reserves:* The Foundation may temporarily hold cash in anticipation of upcoming activity.

### Long Term / Endowment

These funds provide a source of revenue for the Foundation in perpetuity and should be managed for long-term growth and maximum capital appreciation.

Foundation policy requires a payout from the market value of endowed funds for programs based on the current spending policy, plus the administrative fee. If the Foundation is to be able to rely on this source of revenue and meet growing disbursement needs, its endowed assets must increase at a rate greater than the payout rate.

*Investment goal:* To increase the value of the endowed principal over 10-year time periods, after adjustments for current spending and administrative fee. The annualized 10-year return objective is 4% plus the rate of inflation, as measured by the CPI.

*Asset Allocation Targets:*

<u>Asset Class</u>	<u>Permitted Range</u>
Growth Strategies	60% - 90%
Risk Reduction Strategies	5% - 40%
Inflation Protection Strategies	0% - 15%

### **Short Term Funds**

Short Term Funds serve multiple purposes. They are given to meet the immediate needs of the University and, therefore, must be accessible at all times. They also provide cash flow for the operating needs of the Foundation as all income is transferred to operating accounts.

*Investment goal:* Principal preservation.

*Asset Allocation Targets:*

<u>Asset Class</u>	<u>Permitted Range</u>
Cash / Cash Equivalent	100%

### **CHARITABLE GIFT ANNUITY FUNDS**

These funds must contain, at minimum, the present value of the future distributions using published discount rates issued by the American Council on Gift Annuities.

On an annual basis, the Foundation revalues the distribution liability based on life expectancy rates determined by the IRS dependent on the age(s) of the donors as of year-end.

*Asset Allocation Targets:*

<u>Asset Class</u>	<u>Permitted Range</u>
Growth Strategies	20% - 50%
Risk Reduction Strategies	50% - 80%
Inflation Protection Strategies	0% - 15%

### **Rebalancing**

The asset allocation established by this Investment Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature.

To ensure divergence from the target policy is within acceptable limits, rebalancing of assets may be necessary. Rebalancing procedures are authorized in accordance with the IMA are implemented by the OCIO.

Generally, rebalancing among funds may occur on a quarterly basis for the registered investment companies (i.e., mutual funds) and quarterly or semi-annually for alternative assets and real estate (as applicable,) to ensure that the target asset allocation specified in this Investment Policy is maintained

within acceptable ranges as determined by the OCIO. The OCIO will identify the amount of assets that must be reallocated in order to bring the Fund back into compliance with this Investment Policy and will issue the necessary instructions for the transfer of funds.

## CONTROL PROCEDURES

### Annual Review

The Committee and the OCIO will review this Policy of investment objectives and guidelines annually.

### Review of Assumptions

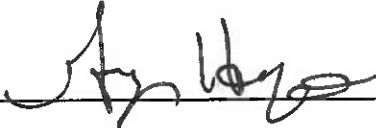
All major assumptions regarding spending policy, budget projections and capital market returns will be subject to an annual review by the Committee. This review will focus on the Foundation's ongoing ability to tolerate downturns in asset values, changes to liquidity, income or rate or return objectives and any changes in the Foundation's priorities or spending policy.

### Review of OCIO and Investments

- The Committee will review investment performance at least annually and will seek reports from the OCIO on a periodic bases, focusing on adherence to this Investment Policy and guidelines.
- Material changes in investment philosophy and process.
- Appropriateness of asset allocation and progress toward goals.
- Comparison of long-term investment results to appropriate benchmarks, as well as market index returns.

### ADOPTION OF INVESTMENT POLICY STATEMENT

*The Foundation's Investment & Finance Committee has reviewed, approved and adopted this Investment Policy Statement, dated August 15, 2024.*

 Executive Director  
Signature

10-15-2024  
Date