WEST CHESTER UNIVERSITY FOUNDATION

STATEMENT OF INVESTMENT POLICIES
#1 LONG-TERM BALANCED STRATEGY
#2 LONG-TERM GROWTH SRATEGY

WEST CHESTER UNIVERSITY FOUNDATION
STATEMENT OF INVESTMENT POLICY

I. STATEMENT OF PURPOSE

The purpose of this Statement of Investment Policy is to provide policies and procedures for the Trustees of the West Chester University Foundation ("Trustees") to select, supervise, and monitor investment activities for monies maintained by the West Chester University Foundation. The Foundation largely manages monies for the long term growth of assets under two investment portfolios. The two portfolios are: 1. "The Long-Term Balanced Strategy Portfolio"; and 2. "The Long-Term Growth Portfolio". These two policies are also intended to provide guidance to investment managers employed by the Trustees to manage the long-term growth of assets on behalf of the Trustees. Both of these long term investment policies are intended for various asset types maintained and or invested by the Trustees. These asset types include endowments, quasi-endowments and split interest agreements. The Trustees delegate management responsibility of these long-term investment policies to the Investment Subcommittee of the Foundation ("Investment Subcommittee"). This Statement represents the current consensus (February, 2017) of the Trustees' philosophy and shall be reviewed every two years to ensure that it continues to reflect the appropriate expectations, goals, and objectives of the West Chester University Foundation ("the Foundation").

II. INVESTMENT OBJECTIVES

The management of the long-term investment strategy assets shall be directed towards achieving the following long-term investment objectives:

A. Provide investment earnings adequate to secure the benefits promised by and the financial obligations created by the 1. Long-term balanced strategy and the 2. Long term growth strategy.
B. Preserve and grow the inflation-adjusted value of the various portfolios for each strategy.
C. Avoid excessive short-term (3 years) volatility of portfolio returns.

III. STRATEGIC INVESTMENT GOALS

These objectives shall be accomplished by the execution of investment strategies, which endeavor to achieve the following long-term goals:

A. Achieve a total return, which meets the endowment's spending rate, plus the rate of inflation, plus the agreed growth rates over a five (5) year time horizon, with acceptable investment risk.
B. Invest in an appropriate variety of investment categories so that the diversity of portfolios will enhance portfolio returns while reducing the long term volatility of returns.
C. Meet and preferably exceed investment returns, net of fees, for both strategies relative to their agreed benchmarks.

IV. INVESTMENT POLICIES

In striving to achieve the investment objectives that have been set forth by the Foundation, certain investment policies must be followed:

A. PRUDENT INVESTOR RULE

The Trustees and Investment Subcommittee are under a duty to the beneficiaries to invest and manage the assets of the long-term investment strategies as a prudent investor would, to meet the purposes, terms, distribution requirements, and other goals of the long-term investment strategies.

1. This standard requires that reasonable and acceptable risk and return objectives be used for both long-term investment strategies.
2. In making and implementing investment decisions, the Trustees and Investment Subcommittee have a duty to appropriately diversify the investments of long-term investment strategies unless, under the circumstances, it is prudent not to do so.
3. In addition, the Trustees and Investment Subcommittee must:
    a. conform to fundamental fiduciary duties of loyalty and impartiality;
    b. act with prudence in deciding whether and how to delegate authority in the selection and supervision of agents; and
    c. only incur costs that are reasonable and appropriate to the investment responsibilities of the Trustees.

B. POLICY ASSET MIX AND BENCHMARKS

The long-term investment portfolios shall consist of a multi-year corpus which could have either or both a growth (Growth Portfolio) and balanced (Balanced Portfolio) orientation.

- The investment objective for long-term portfolios is to produce the highest Total Return with acceptable risk. Acceptable risk is different for each individual and each organization uses different mathematical models to set risk levels. For the purpose of this policy, we will assume 3X the annual Total Return to be a target for acceptable risk.
- For both funds with a growth orientation, the annual total rate of return should be measured against the Standard & Poor’s 500, MSCI All Cap World Index or another comparable equity index and the Barclays Aggregate Bond Index.
- For the Long Term Balanced Portfolio the target ratio of Equities to Fixed income indices is 60:40.
- For the Long Term Growth Portfolio the target ratio of Equities to Fixed Income is 70:30.
- Alternate Investments can consist of either equity and/or fixed income investment assets.
- Total Return is defined as conventional income plus capital gain (loss) or appreciation (depreciation), whether realized or unrealized, net of fees.
- The policy asset allocation for the “long-term balanced portfolio “and the “long term growth portfolio” shall be allocated among the asset categories listed below by direction of the Trustees. Such allocations will include an acceptable percentage variance from the portfolio target allocation. These Targets and Variances are as follows:

STRATEGIC ASSET ALLOCATIONS
LONG TERM BALANCED PORTFOLIO STRATEGY 60/40

Asset Categories	Variance	Target
Equities (Intl/Dom)	+/-20%	60%
Fixed Income	+/-20%	40%
Alternate Investments*	+10%	0%

STRATEGIC ASSET ALLOCATIONS
LONG TERM GROWTH PORTFOLIO STRATEGY 70/30

Asset Categories	Variance	Target
Equities (Intl/Dom)	+/-20%	70%
Fixed Income	+-10%	20%
Alternate Investments*	+/-10%	10%

NOTE: Alternate Investments may include Real Assets, Inflation-Protection Assets and Private Equity. Additionally, alternate investments may generate unrelated business income tax (UBIT) if an underlying investment is debt-financed. The Foundation will pay any taxes resulting from UBIT from endowment income.

REBALANCING

The portfolio manager will initiate communication with the Investment Subcommittee or the Investment Subcommittee will initiate communications with the portfolio manager to discuss rebalancing the portfolio assets if the portfolio falls outside the suggested variances. Also, these variances can be temporarily suspended for periods of six (6) months by a vote of the Investment Subcommittee when appropriate, due to Macro Economic, Regulatory, or other unanticipated factors which can impact the future projected portfolio returns. These temporary changes will be approved by the Finance committee and reported to the Board of Trustees of the Foundation.

ANNUAL SPENDING RATE POLICY FOR ENDOWMENTS

The generally accepted purpose of an endowment is to provide scholarships and/or operating capital on an ongoing basis to meet the specific wishes of the donors. To ensure this intent is met, this policy seeks to provide a consistent flow of funds from the corpus of the endowment while assuring that the value of the corpus does not decline over the intended infinite life of the endowment. This policy uses a number of procedures in an attempt to meet these needs.

- **Degradation of Corpus** – Annually, the endowment investment managers perform a Monte Carlo Simulation to determine the likely probabilities of forward investment returns based on the asset mix of the endowment and the “spend rate” of the endowment. Typically 3.5%, 4.0% and 4.5% spend rates are used and projections are made for possible returns for the forward 5, 10 and 20 years. Based on these analysis, the managers will recommend a spend rate to ensure a high probability the corpus will either grow slightly or remain unchanged on an inflated dollar basis. Historically the recommendations for the spend rate have been 3.5% per annum. The results of this analysis are reviewed by the Investment Subcommittee and a spend rate is recommended to the Finance Committee and Board in a resolution at the February Meeting. The money for this spend rate is typically withdrawn after the end of the fiscal year. Further details of this methodology are given in Attachment A.

- **Ensuring Consistency of Monies to Scholarship Recipients and Specific Operating Needs –** After the end of the fiscal year, endowment distributions are withdrawn, based on the agreed spend rate, from the corpus of the endowments and transferred to a separate Money Market account for distributions to scholarship recipients and/or specific operating expenses. In an attempt to reduce the variability in the amount of these distributions to both scholarship recipients and operating expenses, the spend rate calculation is based on the rolling three year average value of the endowments. Further details of this methodology are also given in Attachment A.

BENCHMARKS

The following are the comparative Benchmark indexes for each authorized asset class, which will serve as the base or blended performance standards against which each asset class and manager will be compared:

Asset Class	Benchmark Index
Domestic/International Equities	MSCI World All Cap Index
Domestic Equities	Standard & Poor’s 500 Index
Fixed Income	Barclays Capital U.S. Aggregate Bond Index
International Equities	Europe, Australia & Far East Index (EAFE)
	Emerging Market Index (EEM)
Alternate Investments	Varies based on type of non-traditional investment strategy

The aggregate portfolio will be compared to an unmanaged composite of benchmark indices weighted in direct proportion to the respective portfolio’s actual asset mix.

C. INVESTMENT MANAGERS

The long-term portfolio strategies shall employ investment managers whose investment philosophy and strategy are consistent with the long term investment objectives of the Foundation. These are:

1. to ensure that assets are invested for long term growth based on the managers macroeconomic or other acceptable market projections and use effective strategic and tactical portfolio asset over and under weightings.
2. to safeguard the long term corpus in the investments over a 5 year average period of time as indicated by Monte Carlo simulations or other suitable market projections.

INVESTMENT MANAGER SELECTION PROCESS

The Request for Proposals (RFP) procedures will be used every 3 to 6 years to validate the continued use of current investment managers and select new investment managers. The decision to begin a new RFP process will be made by a vote of the Investment Subcommittee and recommendation to the Finance committee. The Investment Subcommittee works through the multistage process and board members are invited to participate in and attend RFP meetings. A summary of the RFP process is given below and more details are given in Attachment B.

1. The Investment Subcommittee recommends a new RFP process and issues a resolution to the board for a vote.
2. An RFP timetable is published which includes RFP processes, procedures and requirement for proposals.
3. Current investment managers are notified of the RFP initiation and various investments managers are solicited to submit proposals. Typically 25 proposals are received for review in the RFP process.
4. Each Investment Subcommittee member as well as interested board members review each proposal and rank order the suitability of each manager. These ranking are based on past performance, investment methodology, and a number of other factors which focus on the likely consistency of returns and the likely ability of the chosen manager to outperform their peers.
5. A meeting is held to review and tabulate the ranking of each Subcommittee member and based on these rankings and further discussions, a shortened list of managers (typically 5 to 8) are selected to answer additional questions and present additional information requested in this two phase process.
6. The remaining Phase 2 applicants submit the requested information and the responses are reviewed by Subcommittee members and interested board members. A second meeting is held to identify the 3 to 5 finalists who will be asked to make presentations and answer further questions. After the presentations of the finalists, the Investment Subcommittee votes on the best manager for our endowments.
7. At the next Foundation board meeting, the future investment managers are named.

CRITERA FOR INVESTMENT MANAGER SELECTION

Investment Manager Candidates must be SEC registered and experienced investment professionals. Managers shall be charged to operate in accordance with Foundation and SEC established guidelines and procedures. Managers should normally demonstrate the following minimum standards of competence:

1. The manager has the capability of achieving the target objectives of the long-term portfolio strategies.
2. The manager is managing $500 million or more for a minimum of three years.
3. The assets managed by the manager have above-median portfolio performance, compared to a universe of similar managers over the past 1, 3, and 5 year period of time.
4. The manager's past portfolio management methodology demonstrates the ability to

reasonably deliver above-median performance into the foreseeable future.

5. The manager has the ability to build and maintain confidence with timely, effective communication of strategic and tactical changes in the portfolio based on refined macroeconomic conditions.
6. The manager exhibits and employs a clear, concise, and effective decision-making process.
7. The manager demonstrates organizational depth and personnel to carry out its mission.
8. The manager shows a consistent top down and bottom up investment philosophy and methodology.
9. The manager has adequate reporting, administration & back office support.

QUARTERLY REVIEW AND COMMENTARY REQUIREMENTS

Managers shall submit quarterly investment progress reports of the long-term investment portfolios. At a minimum, these reports shall include written comments on the following:

1. Review of the investment objectives.
2. Provide commentary on past investment results, including calculations of performance.
3. Discuss key decisions made during the past quarter, rationale, and impact on future returns.
4. Discuss possible 3-9 month portfolio changes and the rationale for such changes.
5. Discuss possible longer term (1-3 year) changes in objectives, goals, or standards based upon capital markets.

ANNUAL PORTFOLIO REVIEW

Managers shall meet with the Investment Subcommittee at least annually; and will be supplemented by other meetings as necessary. Each manager will review as a minimum the following agenda items:

1. Past three month and year performance relative to the long-term balanced and long term growth portfolio strategies, goals, objectives and benchmarks.
2. Overview of market conditions and their impact on past and future performance.
3. Key decisions from the previous and for the upcoming year, the underlying rationale, and the likely impact on future results.
4. Any significant changes in portfolio characteristics related to the manager's strategy, process, and style.
5. Outlook for the market and the manager's investment strategy.

INVESTMENT MANAGER REMOVAL PROCESS

The Investment Subcommittee may withdraw assets from a manager at any time with or without cause. Some of the more likely causes where an investment manager can be terminated include:

1. Inferior (1-3 years) performance vs agreed benchmarks.
2. Inferior (1-3 years) performance vs competitive managers managing other Foundation monies.
3. If a current manager is acquired, merged, or in any other way combined with another investment organization, the manager will be subject to a review of the investment philosophy of the newly formed or combined organization. If the acquiring organization was

an applicant in a recent RFP screening process and was rejected, the subcommittee will hold a vote to decide whether to maintain or sever the existing investment management contract.

V. INVESTMENT PERFORMANCE GOALS

A. LONG-TERM BALANCED STRATEGY ENDOWMENT (7%/Annum – HEPI)

Produce a total return from investments for the entire portfolio that:

1. exceeds the rate of inflation (assumed to be 3% HEPI)
2. grows an additional 3.5% (the same percentage as the five (5) year average spending rate of the long-term balanced and long term growth portfolio strategies)
3. grows an additional 0.5% to grow the portfolio beyond average actual inflation and the average spending rate.

B. LONG-TERM GROWTH STRATEGY ENDOWMENT (8%/Annum –HEPI)

Produce a total return from investments for the entire portfolio that:

1. exceeds the rate of inflation (assumed to be 3% HEPI)
2. grows an additional 3.5% (the same percentage as the five (5) year average spending rate of the long-term balanced, and long term growth portfolio strategies)
3. grows an additional 1.5% to grow the portfolio beyond average inflation and anticipated spending

C. PERFORMANCE TO BE IN THE TOP THIRD OF NACUBO RANKINGS

Annually, Common Fund prepares a study of 832 US colleges and University endowments and affiliated foundations and publishes comparative performances. Our investment managers are expected to manage our endowments so that they perform in the top 33% of this NACUBO study over a three year period of time.

VI. INVESTMENT MANAGEMENT (PERFORMANCE) GUIDELINES

The managers of the long-term investment strategies should adhere to the following investment guidelines. Any changes in these guidelines will be communicated to the investment managers in writing. The long-term investment strategies and their duly authorized fiduciaries may invest in foreign and domestic investment through individual securities, separate accounts, mutual funds, exchange traded funds (ETFs), trusts, private placements, partnerships, commingled funds, pooled funds, contracts and other legally constituted means of buying and selling investable assets. Fixed income assets may be invested in foreign or domestic fixed income securities or private placements if such issues in the aggregate do not exceed the targets and acceptable variances of the long term growth and long term balanced strategies.

Further details of the investment guidelines for Equities, Fixed Income, and Alternate Investments are given in the Attachments: Attachment C - Equities, Attachment D - Fixed Income, and Attachment E - Alternate Investments.

A. MARKETABILITY AND EXCLUSIONS

Most securities in the portfolio shall have sufficient marketability to allow liquidation with reasonable notice and without extreme concession. Alternate investments could be more restrictive, and may have longer dated liquidity provisions.

All other types of investments not previously described in the section or attachments C, D and E are not permissible for inclusion in the portfolios without written approval of the Investment Subcommittee.

B. PORTFOLIO ACTIVITY

All transactions are to be governed by negotiation for execution on a best-realized price basis, including commissions and market impact. If investment performance results meet the objectives and standards set forth in this document, the rate of turnover will not be an evaluative factor.

VII. DELEGATION OF RESPONSIBILITIES

A. OFFICERS AND ADMINISTRATIVE STAFF

The Trustees, Investment Subcommittee, and administrative staff of the Foundation will be charged with the following specific responsibilities:

1. Understand the needs of the long-term endowment donors and beneficiaries and the roles of the long-term investment strategies in meeting those needs.
2. Recommend investment objectives and guidelines consistent with those financial needs.
3. Determine an asset allocation strategy and select, through the RFP process investment managers that will meet the investment objectives.
4. Determine appropriate benchmarks for measuring investment performance.
5. Apply appropriate performance standards to evaluate the investment managers.
6. Evaluate and select investment managers.
7. Direct how assets will be allocated and invested consistent with the investment policies adopted by the Foundation Trustees.
8. Review and evaluate investment results against performance standards.
9. Take necessary corrective action when managers fail to achieve expected results.
10. Comply with all pertinent legal requirements and inform the Trustees of changing legal requirements, practices at other Endowments, industry trends, etc.
11. Arrange long-term strategy review meetings and prepare materials.
12. Annually determine the endowment spending rate and communicate this rate to the Investment managers.
13. Perform other functions as directed by the Trustees.

VII. ATTACHMENTS

A. Monte Carlo Simulation and Endowment Spending Rate
B. RFP Procedure Detail
C. Equities – Domestic and International Holdings Guidelines
D. Fixed Income – Domestic and International Holdings Guidelines
E. Alternate Investment Guidelines