

Foundation Investment Policy

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DOCUMENT CONTENT

I. GENERAL INFORMATION

A. BACKGROUND

The principal reason for developing a long-term investment policy statement is to protect against ad hoc revisions to the College Foundation's long-term investment strategy for its investment portfolio. The written investment policy will help maintain a long-term perspective when short-term market movements may be distressing and emotional reactions are most apt to occur.

The development of an investment policy for the Fredonia College Foundation follows the basic approach underlying financial planning: assessing the current financial condition of the organization, setting goals, developing a strategy to meet the goals, implementing the strategy, regularly reviewing the results, and adjusting the strategy or the implementation as circumstances dictate. Instituting an investment policy encourages a disciplined and systematic investment approach, thus improving the probability of satisfying the investment goals for the Foundation.

B. PURPOSE OF THE FOUNDATION

The Fredonia College Foundation exists for four major reasons:

1. Generate earnings to enrich Fredonia programs by funding activities that cannot be provided by public appropriations, tuition and fees, contracts and grants, or other income.
2. Provide revenue to fund those projects which have been endowed for specific purposes, i.e., scholarships, student loans, professorships, program enhancements, etc.
3. Provide monies for various capital requirements of Fredonia life.
4. Provide funding for such contingencies, as the Board of Directors may consider appropriate.

C. SCOPE OF THE INVESTMENT POLICY

This statement of investment policy reflects the policy, objectives and constraints of that portion of the Fredonia College Foundation assets being managed by external investment managers.

1. Definition of externally invested funds: The total of funds to be invested by external managers (referred as the "endowment pool") will be:
 - a. Permanently restricted contributions to endowment funds, whether currently endowed or building toward endowment status.
 - b. Unrealized gains and losses reflecting market value of the endowment pool
 - c. Realized gains and losses of the endowment pool beyond the amount needed to fund scholarships and other purposes of the endowed funds, for a period no less than 18 months.
 - d. Funds reserved for annuitants, such amount to be recalculated on an annual basis per New York State requirements.
2. Internally invested funds: Those funds that are unrestricted, or temporarily restricted, that are used for scholarships and other uses of the University. These are funds that are to be conservatively invested so that the principal is protected, while providing for a reasonable rate of return. Such funds will be invested in FDIC protected bank accounts, money market accounts, laddered CD's, fixed income products, or other relatively safe investments.

D. PURPOSE OF THE INVESTMENT POLICY

This investment policy is set forth by the Board of Directors of the Fredonia College Foundation in order to establish a clear understanding of the investment goals and objectives and management policies applicable to the investment portfolio. This Investment Policy Statement will:

1. Define the responsibilities of all involved parties.
2. Establish reasonable expectations, objectives, and guidelines in the investment of portfolio assets.
3. Create the framework for a well-diversified portfolio that can be expected to generate acceptable long-term returns at an acceptable level of risk, including:
 - a. Describing an appropriate risk posture for the investment portfolio;
 - b. Specifying the target asset allocation policy;
 - c. Specifying the criteria for evaluating the performance of the portfolio.

The Board of Directors assumes and expects all parties involved in the investment management process to manage the Foundation assets according to the prudent person standards as established in the laws of the State of New York.

II. ASSIGNMENT OF RESPONSIBILITY

A. RESPONSIBILITY OF THE BOARD OF DIRECTORS

The Board of Directors is charged by its By-Laws with the responsibility for the management of the Foundation's assets. The Board of Directors shall discharge its duties in good faith with the care an ordinary prudent person in a like position would exercise under similar circumstances and in a manner the Directors reasonably believe to be in the best interest of Fredonia. The specific responsibilities of the Board of Directors relating to the investment management of Fund assets include:

1. Projecting the Foundation's financial needs, and communicating such needs to the Investment Managers on a timely basis. Reviewing financial needs projected by Foundation staff with the assistance of the Investment Management Consultant.
2. Determining the Fund's risk tolerance and investment horizon, and communicating these to the appropriate parties.
3. Establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Fund's assets.
4. Prudently and diligently selecting qualified investment professionals including: Investment Consultant(s), Investment Manager(s), Broker/Dealer(s), and Custodian(s). If an Investment Management Consultant has been retained, they will assist in the selection of Investment Manager(s), Broker /Dealer(s), and Custodian(s).
5. Regularly evaluating, with the advice of the Investment Management Consultant, the performance of the Investment Manager(s) to assure adherence to policy guidelines and monitoring investment objective progress.
6. Developing and enacting proper control procedures, with the assistance of the Investment Management Consultant if one has been engaged. For example, replacing Investment Manager(s) due to underperformance, organizational weakness or instability, change in investment philosophy, failure to comply with established guidelines, or other factors.

The Board of Directors of the Fredonia College Foundation in their fiduciary capacity have delegated the responsibility and authority for investing the Foundation's assets to the Investment Committee of the Board of Directors. As such, the Investment Committee is authorized to hire professional experts in various fields. These include, but are not limited to: investment management consultant(s), investment manager(s), broker/dealer(s) and custodian(s).

B. RESPONSIBILITY OF THE INVESTMENT MANAGEMENT CONSULTANT(S):

The consultant will assist the Board of Directors in establishing investment policy, developing an overall asset allocation and performance criteria (both absolute and risk adjusted) for each asset class utilized in the portfolio, recommending specific investments and/or managers for each asset class and reviewing such investments and/or managers over time. The consultant will monitor, measure and report quarterly the performance of the overall portfolio and sub-components of the portfolio against the appropriate benchmarks, rebalance the portfolio within the defined asset allocation policy, and other tasks as deemed appropriate. The consultant is expected to make recommendations and provide advice that addresses major changes in economic and investment conditions in order to maintain and/or improve the Foundation's investment performance. Such recommendations may include, but need not be limited to, adjustments in additions to asset classes, and/or allocation of resources within or between asset classes.

C. RESPONSIBILITY OF THE INVESTMENT MANAGER(S):

Each Investment Manager will acknowledge in writing its acceptance of responsibility as a fiduciary. Upon receipt of this policy, each Investment Manager will acknowledge that they have received, reviewed and are in compliance with all of the guidelines set forth in the policy pertinent to that manager. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this policy statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this policy statement.
2. Reporting, on a timely basis, quarterly investment performance results as measured against appropriate benchmarks established in this policy statement.
3. Communicating, on a timely basis, any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Promptly informing the Investment Committee regarding any qualitative change to investment management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, if requested by the Investment Committee, on behalf of the Fredonia College Foundation and communicating such voting records to the Investment Committee on a timely basis.

D. RESPONSIBILITY OF THE CUSTODIAN(S):

The custodian will physically (or through agreement with an approved 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 will also perform regular accounting of all the assets owned, purchased, or sold as well as movement of assets into and out of the Fund accounts.

Such experts employed are also deemed to be fiduciaries and they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

III. GENERAL INVESTMENT PRINCIPALS

A. GENERAL GUIDELINES

1. Investment of the Fund assets shall be diversified within the agreed asset allocation parameters so as to minimize the permanent risk of large losses, unless under the circumstances it is clearly prudent not to do so.
2. The Investment Committee may employ one or more Investment Managers of varying styles and philosophies and other consultants to attain the Fund's asset allocation objectives.
3. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

IV. GENERAL INVESTMENT PRINCIPALS

In order to meet its needs, the investment strategy of the Fredonia College Foundation is to emphasize total return. Total return for the purpose of this policy is defined as the sum of all income earned, including income from dividends and interest, plus realized and unrealized capital appreciation.

A. INVESTMENT GOAL

1. Provide long-term growth of capital to achieve the total return requirements of the Fund while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.
2. Create a stream of investment returns which treat equitably, in inflation adjusted terms, the present and future needs of the organization.
3. Minimize year-to-year volatility of the portfolio through broad diversification among the major asset classes.
4. Maintain a reasonable level of investment related expenses.

B. SPENDING POLICY

In determining the amount to be spent annually from endowment funds, the Investment Committee will review the following eight factors, and will report to the Board on their consideration of each factor:

1. The duration and preservation of the endowment fund,
2. The purposes of the Fredonia College Foundation, and of its various endowment funds,
3. General economic conditions,
4. The possible effect of inflation or deflation,
5. The expected total return from income and the appreciation of investments,
6. Other resources of the Foundation,
7. The investment policy of the Foundation, and
8. Where appropriate and circumstances would otherwise warrant alternatives to expenditures of the endowment fund, giving due consideration to the effect that such alternatives may have on the Foundation.

The Foundation follows a total return objective consisting of the spending rate, plus CPI, plus all related costs associated with the management and maintenance of the various endowments. For purposes of establishing the total return objective, the Foundation expects over time to have a spending rate of 4.5% of the trailing twenty-quarter, average market value of the fund.

C. FUNDS VALUED BELOW HISTORICAL GIFT VALUE

In the case of those endowment funds where the donor has instructed that the Foundation not spend below the original dollar value (historical gift value) of the fund, the Executive Director or controller are responsible for reporting to the Executive Committee, within one month after the end of each calendar quarter, on the number of underwater funds, the aggregate amount of the deficiency, and the availability of funds for distribution.

V. MANAGEMENT OF THE FUND PORTFOLIO

A. EXPECTED MARKET RETURNS AND VOLATILITY

The Board of Directors understands that in order to achieve its objectives for Fund assets, the Fund will experience volatility of returns and fluctuations of market value. The Board of Directors will tolerate long-term volatility consistent with the long-term risk/return relationships described below.

B. RISK

Based upon actual market performance history (1926-2015), the following are historical annual market index returns and volatility for the various asset classes indicated:

	Historical Average Annual Return	Standard Deviation
U.S. Large-Cap Stocks	9.5%	17.7%
U.S. Mid-Cap Stocks	11.0%	22.3%
U.S. Small-Cap Stocks	11.4%	26.8%
Foreign Stocks*	8.8%	17.0%
U.S. Fixed income	5.2%	4.4%
T-Bills (cash)	3.4%	0.9%
Inflation	2.9%	1.8%

**Foreign stock data reflects the period January 1970-December 2015. Source: Dimensional Fund Advisors*

While past performance is not necessarily indicative of future results the Board of Directors fully understands, accepts, and expects volatility and returns to increase as capitalization is reduced. By diversifying among numerous asset classes, the Investment Committee is attempting to reduce the volatility of the overall portfolio. Nevertheless, short-term fluctuations in portfolio value are tolerable.

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (i.e., volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the portfolio is the determination of an appropriate risk tolerance. The three primary factors that affect this determination are the financial ability to accept risk (specifically, dramatic negative short term performance), the psychological ability to accept risk, and the long-term investment return requirements.

C. STRATEGIC ASSET ALLOCATION POLICY

The Board of Directors have adopted an asset allocation target for the Foundation's investment portfolio as defined in Appendix A.

The Investment Committee reviewed potential outcomes for the portfolios with these asset allocations and has determined the risk profile is prudent relative to the potential returns based on historical risk and return characteristics. Moreover, this allocation provides a reasonable opportunity for the Fund to meet its spending requirements, plus all related costs associated with management and maintenance of the Fund.

D. PERFORMANCE BENCHMARKS

Based on the adopted asset allocation policy, a customized performance benchmark index will be used to measure the overall investment performance of the Fund's portfolio. This index will be a policy-weighted composite of the benchmark indices as they relate to the target asset allocation. The index weights comprising the benchmark are specified in Appendix A.

E. TIME HORIZON

Given that the Investment Fund has an infinite life, the time horizon applicable to this policy is long-term. This time horizon will generally be used for making judgments about asset allocation, whereas investment manager performance will typically be judged for periods equal to the lesser of a full market cycle or 36 months.

F. REBALANCING

Because different asset classes will perform at different rates, the investment management consultant(s), and the investment manager(s) will keep close scrutiny on asset allocation shifts caused by performance. Accordingly, the investment management consultant(s) and the investment manager(s) will review the relative market values of the asset segments, and will generally place new money under investment in the categories that are furthest below their target allocations in this policy.

To the extent that adequate rebalancing among asset categories cannot be effected via the allocation of new contributions, the investment management consultant will re-direct monies from one asset category to another as market fluctuations skew the allocation away from the specified targets identified in Appendix A and report any such re-direction of monies to the Investment Committee of the Foundation on a quarterly basis.

G. TYPES OF ASSETS

In order to provide the Investment Managers with the freedom to invest in various types of assets, they are further guided by the following definitions and delineations of activities:

The investment list includes but is not limited to common stocks, open-end mutual funds, exchange traded funds, preferred stocks, corporate bonds, U. S. Government and Agency securities, commercial paper, convertible securities and money market funds. As indicated above, investments will be allocated to the following categories:

1. Domestic Common Stocks - common stocks will be further diversified via the use of the two major known investing styles ("growth" and "value" styles). The allocation to U.S. common stocks will generally maintain a balance of investment styles. Stocks will be domestic or foreign issues traded on the principal stock exchanges. It is expected that the stocks will on balance achieve returns commensurate with the risk assumed.
2. Fixed Income - the objective of fixed income investments in the portfolio is to produce relative steady returns and cushion the fund against excessive stock market volatility. The fixed income portfolio will be diversified among bond issuers and will attempt to match the duration of the overall market but will maintain an average credit quality of at least "A" or better at all times.
3. International Stocks - this asset class should reflect the equity markets of Europe, Asia, and the Far East. Holdings in this asset class should be headquartered outside the U.S. and be broadly diversified to reduce specific company, currency and political risks.
4. Real Return Assets – the objective of real return investments in the portfolio is to provide protection from increases in the rate of inflation. Acceptable asset classes include inflation protected bonds, real estate, and real assets including but not limited to commodities, natural resources, and precious metals. These asset classes are also expected to provide additional diversification beyond stocks and bonds. Investments in real return assets should be broadly diversified.
5. Cash - while there is no explicit allocation to cash, it is expected the investment management consultant(s) will work with the investment manager(s) to ensure enough cash is available to meet the Fredonia College Foundation's liquidity needs.

H. PROHIBITED TRANSACTIONS

The use of actively managed derivative investments (options, futures, etc.), hedging techniques, and leveraging, as these investments and techniques are normally defined, commodities, warrants, unregistered or restricted stock, and conditional sales contracts are prohibited unless expressly authorized in writing by the Board of Directors prior to their use. No more than seven percent (7%) of the market value of the Fund's assets shall be invested in any single security issues, excluding the U.S. Government, and no more than thirty percent (30%) of the market value of the Fund's assets in any single industry.

Other investment categories may be used with authorization by the Board of Directors.

I. LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Controller of Fredonia College Foundation will periodically provide investment manager(s) with an estimate of expected net cash flow. The Controller will notify the investment manager(s) in a timely manner, to allow sufficient time to build up necessary liquid reserves.

Because of the infrequency of cash outflows and the liquidity of all Fund assets, the Board of Directors does not require the maintenance of a cash or cash equivalent reserve.

J. MARKETABILITY OF ASSETS

The Board of Directors requires that all Fund assets be invested in liquid securities, defined as securities that can be liquidated efficiently and within seven (7) business days for the Fund, with minimal impact on market price.

VI. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

A. REVIEW

The investment performance of the total portfolio, 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 this statement. The Board of Directors intends to evaluate the portfolio over at least a three-year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

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

VII. INVESTMENT POLICY REVIEW

To assure the continued relevance of the guidelines, objectives, financial status, and capital markets expectations as established in this statement of investment policy, the Board of Directors plans to review investment policy at least annually.

APPENDIX A & B



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FAQ's			
Keywords			
Category(s)	<table border="1"><tr><td data-bbox="516 779 771 1066"><input type="checkbox"/> Academic Affairs <input checked="" type="checkbox"/> Advancement <input type="checkbox"/> Financial <input type="checkbox"/> Governance <input type="checkbox"/> ITS</td><td data-bbox="771 779 1000 1066"><input type="checkbox"/> Operational <input type="checkbox"/> Personnel <input type="checkbox"/> School/College <input type="checkbox"/> Student Life</td></tr></table>	<input type="checkbox"/> Academic Affairs <input checked="" type="checkbox"/> Advancement <input type="checkbox"/> Financial <input type="checkbox"/> Governance <input type="checkbox"/> ITS	<input type="checkbox"/> Operational <input type="checkbox"/> Personnel <input type="checkbox"/> School/College <input type="checkbox"/> Student Life
<input type="checkbox"/> Academic Affairs <input checked="" type="checkbox"/> Advancement <input type="checkbox"/> Financial <input type="checkbox"/> Governance <input type="checkbox"/> ITS	<input type="checkbox"/> Operational <input type="checkbox"/> Personnel <input type="checkbox"/> School/College <input type="checkbox"/> Student Life		
Sub-Category(s)			