Investment Objectives and Guidelines for East Stroudsburg University Foundation

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TABLE OF CONTENTS

I. INTRODUCTION

This Investment Policy establishes the investment philosophy and practices of the East Stroudsburg University Foundation ("The Foundation").

II. INVESTMENT OBJECTIVE

Investment Philosophy

The assets of the Foundation's Portfolio ("Portfolio") shall be invested in a prudent manner, in sound investments, consistent with applicable law and prevailing financial market conditions for realistic return goals. We are to protect the assets of the Foundation and strive to maximize the total return to the extent possible without assuming excessive risk. The Foundation Portfolio shall conform to the standards stated herein, or such other Investment Policy as may be adopted by the Board of Directors ("Board") from time to time.

A. The primary investment objective of the Portfolio is to earn an average annual total return of at least 5% per year over the inflation rate measured by CPI net of costs. The objective shall be measured over the longer term (rolling five-year periods).

B. The preservation of the principal shall be the secondary investment objective. Prudent consideration shall also be given to the probable rate of return from the investments, with primary emphasis being placed on the generation of income to support operations. Investments will be administered in a manner that ensures adequate cash flow to meet reasonably anticipated liquidity needs.

C. The Foundation's investment policies for the Portfolio should be based on the assumption that annual spending percentage shall never be lower than 2% nor more than 7% per year, as required by PA General, Title 15, 5548. Based on historical rates of returns and the target asset allocation, this spending level should enable the Foundation to achieve its long-term objective.

D. Payouts will be determined by the Board as a percent of the rolling three-year fund value.

III. TIME HORIZON

The time horizon for these assets is perpetual. For strategic planning purposes, a minimum of five years will be considered for decision-making purposes. Capital values do fluctuate over shorter periods and the Investment Committee recognizes that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of at least three to five years can be minimized with the long-term investment mix employed under this Investment Policy.

IV. RISK TOLERANCE

The Investment Committee recognizes prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns. Research has demonstrated that Portfolio risk is best minimized through diversification of assets. The Portfolio of funds will be structured to maintain prudent levels of diversification. In terms of relative risk, the volatility of the Portfolio should be in line with general market conditions.

The Investment Committee recognizes that over the long term, the risk of owning equities has been, and should continue to be rewarded with a somewhat greater return than that available from fixed income investments. The role of fixed income investments is to reduce the volatility of the overall Portfolio while providing a predictable stream of income.

V.PROCEDURES

The Investment Committee is charged with the oversight of the investment of the endowed, restricted, unrestricted and operating assets of East Stroudsburg University Foundation.

The roles of the Investment Committee and the Investment Manager(s) with regard to the assets are delineated as follows:

The Investment Committee, with active assistance and recommendations from the Board, shall have responsibility for the following:

A. Establishing overall financial objectives and setting investment policy;
B. Setting parameters for asset allocation;
C. Establishing a process and criteria for the selection and termination of investment program managers and/or custodians;
D. Selecting a qualified investment management consultant, if applicable;
E. Selecting qualified Investment Manager(s);
F. Selecting a qualified custodian;
G. Monitoring investment results quarterly to assure that objectives are being met and that policy and guidelines are being followed;
H. Communication on a structured and ongoing basis with those persons responsible for investment results;
I. Provide Board with information regarding fund investment structure and performance against established objectives and policies.

The Investment Manager(s) will be responsible for the following:

A. Determining investment strategy;
B. Implementing security selection and timing within policy guideline limitations.

VI. COMMITTEE OPERATIONS

A. The Investment Committee shall meet as required, but not less than four times each year;
B. The actions of the Investment Committee shall be recorded in formal minutes;
C. The Investment Committee may adopt procedures necessary to conduct its affairs;
D. The Investment Committee authorizes members of the Executive Committee to execute or deliver any instrument on its behalf;
E. The Executive Director of the Foundation, or his/her representative, is authorized to carry out all administrative functions required by Investment Committee action.

VII. ASSET ALLOCATION

The Investment Committee recognizes the strategic importance of asset allocation and style diversification in the investment performance of the assets over long periods of time. Domestic and international equities both large and small capitalization, fixed income, cash equivalent securities, and alternative investments including real estate, private equity, and hedge funds in the form of diversified fund of funds have been determined to be acceptable vehicles for these assets. Additional asset classes and style strategies may be incorporated into the investment philosophy in the future.

A. Summary of Asset Allocation Guidelines

After reviewing the long-term performance and risk characteristics of various asset classes, the following asset allocation strategy is incorporated to achieve the objectives of these assets:

Asset Category	Minimum	Target	Maximum
Cash	**0.00%**	**5.00%**	**10.00%**
Fixed Income	**20.00%**	**25.00%**	**55.00%**
Equity	**40.00%**	**70.00%**	**75.00%**
Alternative Investments	**0.00%**	**0.00%**	**10.00%**

B. Liquidity

There is no set minimum cash requirement; however adequate liquidity should be maintained as required for budgeted distribution. It is intended that Investment Managers will be given ample notice for any withdrawals to reduce the probability of adversely affecting the Portfolio. Additionally, any withdrawals will be funded on a pro-rata basis to ensure that the asset allocation after the withdrawals is within the investment guidelines as listed above.

C. Rebalancing Procedures

From time to time, market conditions may cause the investment in various asset classes to vary from the established allocation. At least on an annual basis, the Investment Committee and the Board will review both the specific asset allocation (equity vs. fixed income) and the style targets for possible rebalancing back to the target allocation, to ensure consistency with the asset allocation guidelines established by this investment policy. If the actual weighting goes above/below the maximum/minimum weighting intra-year, rebalancing may be recommended.

VIII. SELECTION AND RETENTION

A. Investment Management

Investment Manager(s) (including mutual funds) shall be chosen using the following criteria:

1. The investment style and discipline of the proposed manager;
2. The size of the organization as measured by the amount of assets under management with respect to the investment style under consideration;
3. Experience of the organization as measured by the tenure of the professionals with respect to the investment style under consideration;
4. Past performance considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance;
5. The historical volatility and down-side risk of each proposed investment;
6. How well each proposed investment complements other assets in the Portfolio.

B. Portfolio Composition

1. For purposes of investment policy, Portfolio assets shall be considered as three parts: an ‘equity fund’, a ‘fixed income fund’, and an ‘alternative fund’ (together, the “Funds”). The Investment Committee will establish a long-term policy range or band for all Funds, as well as a current target exposure for each asset class;

2. The ‘equity fund’ (including domestic stocks, foreign stocks, ADR’s) is intended to provide long-term capital appreciation and a growing stream of income. It is recognized that the ‘equity fund’ by itself will likely entail the assumption of greater price variability than the ‘fixed income fund’ and possibly the ‘alternative investment fund’;

3. The ‘equity fund’ should normally represent 40-75% of total Portfolio assets at market value. The actual percentage of equities will vary with market conditions, within a band set by the Committee;

4. The purposes of the ‘fixed income fund’ are to provide a hedge against deflation, to produce a source of current income, and to help diversify the total Portfolio;

5. The ‘fixed income fund’ should normally represent 20-55% of total Portfolio assets at market value;

6. The ‘alternative investment fund’ should normally represent 0-10% of total Portfolio assets at market value;

7. The purposes of the ‘alternative investment fund’ are to give exposure to certain market specialists that can produce outsized returns with limited volatility;

8. Any alternative investment requires a unanimous vote of approval by the Investment Committee and a majority approval from the Board to make an allocation;

9. The Investment Committee may, within the band approved by the full Board, at its discretion; change the ratio of each fund, but it is anticipated that such changes will be infrequent. Board approval is required to change the asset allocation band. The table in the Summary of Asset Allocation Guidelines sets forth the assets allocation policy ranges and the current target;

10. New cash flows shall be allocated to Investment Managers by the Investment Committee with assistance of the Board. As a general rule, new cash will be used to rebalance the total account in the direction of the target allocation agreed to at the most recent Investment Committee meeting;

11. The Portfolio allocation will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., common stock of economic sectors such as, but not limited to, Consumer Staples, Health Care, Financials, Energy, Telecommunications, and Utilities, as well as by industry such as, but not limited to, Beverages, Household Products, Insurance, Software, and Media, as well as by quality, and market capitalization). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total Portfolio.

IX. PEFORMANCE OBJECTIVES

The overall Portfolio performance will be reviewed on a quarterly basis, with long term emphasis placed on results achieved over a three to five-year period. Objectives will be reviewed annually and adjusted, if necessary, after consultation with the Investment Committee and Investment Managers.

A. <u>Total Fund Objectives</u>

Overall fund performance will be compared to the performance of a similarly structured balanced index in line with the target allocation in each fund strategy. This custom index will be comprised of the S&P 500 Index (or Russell 1000 Index), Russell 2000 Index, EAFE International Index, MSCI Emerging Markets Index, Barclays Capital U.S. Aggregate Bond Index, and/or other appropriate indices. The Portfolio performance should at least equal the performance of the custom balanced index (net of fees).

B. <u>Equity Fund Objectives</u>

The performance of the domestic large cap equity portion is expected to meet or exceed the performance of S&P 500 Composite Index or the S&P 500/Citigroup Growth/Value Index/Russell 1000 Growth/Value, depending on the manager's investment style.

The returns of the large capitalization equity portion should rank in the top thirty-three percent (33%) of a nationally recognized evaluation service's universe for comparable funds and investment styles over rolling three to five year time periods.

The performance of the domestic small capitalization equity portion should meet or exceed the performance of the Russell 2000 Small Stock Index or the Russell 2000 Value / Growth Index, depending on the manager's investment style.

The returns of the small capitalization equity portion should rank in the top thirty-three percent (33%) of a universe for comparable funds over a rolling three to five year time periods.

The performance of the international developed markets equity portion should meet or exceed the performance of the Morgan Stanley Capital International's Europe Australia Far East (EAFE) Index or another appropriate index.

The returns of the international developed markets equity portion should rank in the top thirty- three percent (33%) of a universe for comparable funds over a rolling three to five year time periods.

The performance of the emerging markets equity portion should meet or exceed the performance of the Morgan Stanley Capital International's Emerging Markets Index.

The returns of the emerging markets equity portion should rank in the top thirty-three percent (33%) of a universe for comparable funds over a rolling three to five year time periods.

The International Small Cap equity portion of the Portfolio is expected to exceed the performance of the MSCI All Country World (ACWI) ex US Small Cap Index. The returns should rank in the top thirty-third percent (33%) of a universe for comparable funds over a rolling three to five year time periods.

No more than 30% of 'equity fund' shall be invested in any one industry. No more than 8% of 'equity fund' shall be invested in any company. The equity managers may not sell securities short, buy securities on margin, buy any Limited Partnerships (or any illiquid investment), borrow money or pledge assets, or buy or sell uncovered options, commodities or currencies without the advance approval of the Investment Committee.

The volatility of investment returns, as measured by the standard deviation of quarterly returns, should be comparable to that of the segment's appropriate index. As stated above, volatility greater than the benchmark is acceptable so long as returns are commensurate.

C. Fixed Income Fund Objectives

The performance of the core fixed income portion is expected to meet or exceed the performance of the Barclays Capital U.S. Aggregate Bond index or other appropriate index or mix of indices, which reflect the fixed income portion of the Portfolio.

The returns of the fixed income portion should rank in the top 40% of a universe for comparable fixed income funds over a three to five year time period.

Investment in corporate bonds will be for the most part in securities rated "A" or higher by Moody's or Standard & Poor's. Up to 20% of the fixed income Portfolio may be held in securities rated BBB. The weighted average quality of the Portfolio shall be "AA" or above. The prospect of credit risk of permanent loss shall be avoided. The Investment Manager will seek the approval of the Investment Committee before purchasing any bonds denominated in foreign currency.

In general, the 'fixed income fund' shall be diversified with respect to type, industry, issuer in order to minimize risk exposure. A maximum of 8% of the portfolio will be held in any one issue. However, obligations issued or guaranteed by the U.S. government may be held without limitation.

The volatility of investment returns, as measured by the standard deviation of quarterly returns, should be comparable to that of the segment's appropriate index. Again, volatility greater than the benchmark is acceptable so long as returns are commensurate.

D. Alternative Investment Fund Objectives:

The Investment Committee recognizes that benchmarks for alternative investments, more specifically hedge fund of funds, are relatively new in their creation and there is no perfect benchmark in existence for these types of investments. Hedge fund indexes are created from hedge fund databases. There is no complete database because inclusion in these databases is voluntary and they are subject to survivorship bias. Additionally, each hedge fund, including fund of funds, has diverse investment objectives and characteristics making like comparisons difficult.

To aid in the on-going evaluation of the alternative investment portion of the Portfolio, Fund of Funds Hedge Fund investments will be compared to the following benchmarks:

- The appropriate HFRI Fund of Funds Index
- Other benchmark designated by fund of funds manager and agreed by the Investment Committee

The Investment Committee recognizes private equity returns are not meaningful in the early years of investment and that the evaluation of this type of investments should be considered over the long-term; a ten year time horizon. To aid in the on-going evaluation of private equity investments, they will be compared to the Thompson VentureXpert Private Equity Index.

X. CONTROL PROCEDURES

A. Review and Evaluation of Investment Objectives

The achievement of investment objectives will be reviewed on an annual basis by the Investment Committee. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of the Investment Policy. It is not expected that the investment policy statement will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the Investment Policy.

B. Review and Evaluation of Investment Manager(s)

The Investment Committee will meet at least annually with the Investment Manager(s) or their representative(s).

Additionally, with or without the Investment Manager(s), the Investment Committee will review investment results quarterly.

These reviews will focus on:

A. The Investment Managers' adherence to the policy guidelines;
B. Comparison of the Investment Managers' results to the objectives established for each Investment Manager;
C. Comparison of the Investment Managers' results against the universe of comparable funds investment styles;
D. Opportunities available in both the equity and bond markets; and;
E. Material changes in the Investment Managers' organizations, such as philosophical or personnel changes.

The Investment Committee may discharge or replace an Investment Manager at any time it deems such action necessary and appropriate. Written notice will be given 30 days in advance.

Guidelines for evaluation, retention, and replacement of Investment Managers will be as follows:

A. Establish appropriate benchmarks/indexes to which to compare Investment Managers' performance;
B. Establish performance target: to outperform benchmarks/indexes and to achieve investment returns;
C. Ranking in the top thirty-third percentile (33%) of peer universe groups for equities over a three to five year period;
D. Ranking in the top fortieth percentile (40%) of peer universe groups for fixed income over a three to five year period;
E. Monitor Investment Managers' performance on a quarterly basis and compare to selected index and peers with similar styles and objectives.

An Investment Manager will be rated in a "Favorable Status" if they are delivering favorable performance and there are no outstanding organizational issues.

An Investment Manager will be in a "Caution Status" if:

<u>For Equities</u>

- Investment Manager's three year performance is below the 50th percentile of their peer universe, or they are trailing the style benchmark, or;
- Investment Manager's five plus year performance is below the 33rd percentile of their peer universe, or they are trailing the style benchmark.

<u>For Fixed Income</u>

- Investment Manager's three year performance is below the 50th percentile of their peer universe, or they are trailing the style benchmark, or;
- Investment Manager's five plus year performance is below the 40th percentile of their peer universe, or they are trailing the style benchmark.

<u>For Alternative Investments</u>

<u>Hedge Funds</u>

- Investment Manager's one year performance is negative, failing to preserve capital, or;
- Investment Manager's three year performance is below any of the indexes as listed below and in the Investment Consultant's opinion, represents sub-par results, or;
    - For Fund of Fund Hedge Funds
        - The appropriate HFRI Fund of Funds Index
        - Other benchmark designated by the fund manager and agreed upon by the Investment Consultant and Investment Committee;
- Investment Committee has concerns resulting from the review of on-going documentation.

Private Equity

Since these types of investments are illiquid and long-term in nature, there are no specific performance criteria for watch status. A manager managing these types of investments may be put on "watch status" if in the Investment Committee's the watch status is warranted.

An Investment Manager will also be considered on "Caution Status" if there is a material change in the ownership structure of their organization, or there is a departure of key investment professionals.

An Investment Manager that falls in "Caution Status" should undergo a formal review by the Investment Committee. The review will address how the Investment Manager will move back to "Favorable Status" or recommend termination. An Investment Manager can move back to "Favorable Status" by improving its performance above the criteria as listed above. Highest priority will be given to those failing to meet the five-year target and next to those failing to meet the three-year target. There may be situations where immediate problems, questions or short- term performance issues arise regarding an Investment Manager and the priority will shift to review these situations first.

In addition to the above, immediate termination of managers should be considered:

- When they deviate from the Investment Committee's instructions;
- When they deviate substantially from their investment disciplines and process;
- When Investment Committee members have any material problem or concerns regarding the Investment Manager.

XI. COMMUNICATIONS

Month-end accounting of transactions and Portfolio holdings, ending Portfolio and holdings values, including a roll forward (monthly, fiscal and calendar year to date) will be provided by the Investment Manager(s). This roll forward will agree with the Portfolio book activity.

Quarter-end regular accounting of transactions, Portfolio holdings, yields, and current market values, summary of cash flows, calculations of the Portfolio's total rate of return on a latest quarter, year- to-date and since inception basis will be provided by each Investment Manager.

The Investment Managers will maintain communication with the Foundation as reasonable frequency as market conditions and the Portfolio warrant. Major market conditions and major Portfolio changes should be called to the attention of the Foundation by the Investment Managers.

Significant changes within the Investment Managers' operations of personnel and the anticipated impact on the assets should be brought to the attention of the Foundation immediately.

Proxies must be voted by the Investment Manager in compliance with the values and philosophy of The East Stroudsburg University Foundation.

XII. ADMINISTRATIVE AND MANAGEMENT EXPENDITURES

In order to cover the administrative and investment management expenses associated with operating the Foundation and investing the Foundation's endowed assets, the Foundation may charge an administrative fee to each endowment account in an amount and at such frequency as determined from time to time by the Board as necessary to equitably and efficiently operate the Foundation and manage the assets of the Foundation in accordance with this Investment Policy.
(Should the this be "in accordance to the Foundation's Administrative Fee Spending Policy? Or at least reference it?)

Such administrative fee shall be charged against the earnings of each endowment account, if any, which remain after annual spending amounts have been distributed from such account pursuant to the Foundation's total return investment policy.

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