

**University of Alaska & University of Alaska Foundation
Consolidated Endowment Fund Investment Policy**

Approved by the UA Foundation Board of Directors on October 12, 2017; and its use to manage and invest the CEF authorized by the UA Board of Regents on November 10, 2017.

I. INTRODUCTION AND PURPOSE

The University of Alaska and University of Alaska Foundation Consolidated Endowment Fund (the “Fund”) was established effective July 1, 1997 in order to enhance the management of the University of Alaska’s Land Grant Endowment Trust Fund held by the Board of Regents and the Pooled Endowment Funds held by the University of Alaska Foundation (the “Foundation”). The Fund is maintained and operated pursuant to the Consolidated Endowment Fund Agreement, by and between the University of Alaska Board of Regents (the “BOR”), the University of Alaska (the “University”) and the University of Alaska Foundation Board of Directors (the “BOD”). This Investment Policy (this “Policy”) establishes an investment framework that reflects the investment management philosophy of both the BOR and BOD (collectively the “Boards”), thereby providing the Investment Committee (the “Committee”) with a guide for investment of the Fund. The Fund consists of the investable resources of the University Land Grant Endowment Trust Fund, its related Inflation-Proofing Fund, the Foundation’s Pooled Endowment Fund, and such other funds as the University’s Chief Finance Officer or Foundation’s Director of Finance invests in the Fund.

II. SCOPE OF THIS POLICY

This Policy governs the investment activities of all assets owned or managed within the Fund. It is intended to be interpreted liberally so that the investment strategies employed can be accomplished effectively and efficiently.

III. DUTY OF LOYALTY AND STANDARD OF CARE

The Boards, the Committee, Foundation Staff, and others serving in a fiduciary capacity for the Fund are subject to the standards under AS 37.10.071 and the Uniform Prudent Management of Institutional Funds Act, AS 13.65. As such, all fiduciary activities shall be undertaken and each fiduciary shall exercise his or her fiduciary duties in the sole financial best interest of the Fund and treat all beneficiaries with impartiality.

IV. PRINCIPLES AND CONSIDERATIONS FOR FUND MANAGEMENT AND INVESTMENT

The Primary Investment Goal of the Fund is to provide a real rate of return, net of investment expenses, sufficient to cover the endowment administrative fee and the annual spending allowances in support of the purposes of the various endowments that make up the Fund, in perpetuity.

The greatest investment risk for the Fund is the probability of not meeting its Primary Investment Goal. Therefore, in order to minimize this risk, the Committee will consider in all aspects of its investment decision-making process (1) the probability of missing the objective and (2) the asset allocation, which is the primary determinant of long-term performance. Achievement of the Primary Investment Goal and management of funds will be driven by the core principles and considerations listed below.

Charitable Purpose: Endowment management and investment decisions shall be made with

consideration to the purposes of the institution, the participating fund(s), and the documented donor intent.

Distributions (Spending Allowances): Distributions from the endowment funds shall be made in accordance with spending policies and procedures as may be adopted or directed by the responsible Board. In making such distributions and managing endowments the responsible Board, committees, and staff shall consider the duration and preservation of the fund, the purposes of the institution and the fund, the general economic conditions including inflation and deflation, the expected total return, other resources of the institution, and the applicable investment policies.

Diversification: The likelihood of realization of the Primary Investment Goal is enhanced substantially through diversification and the reduction of risk; therefore, the Committee will diversify assets among various classes of investments and managers.

Fees and Expenses: Fees and expenses may cause a significant drag on returns and appreciation, which can limit the Boards' ability to attain the Primary Investment Goal; therefore, the Committee will monitor fees and expenses associated with investment activities on an annual basis and incur only costs that are appropriate and reasonable.

Inflation: The Consumer Price Index (CPI-U) shall be used as the basis for determining the real rate of return and attainment of the Primary Investment Goal.

Liquidity: The Fund has relatively modest cash outflow requirements; therefore, excessive amounts of liquidity are not required and appropriate portions of the Fund may be invested in non-liquid investments.

Time Horizon: The Fund has an infinite life; therefore, investment strategies may take a long-term perspective.

Total Return: The Boards have adopted a "Total Return" approach to managing endowments, unless otherwise directed by the donor; therefore, the Committee will manage the Fund's investments without regard to the distinction between current income and net realized or unrealized gains and losses, and will emphasize returns net of fees when assessing overall performance of the Fund and recommending spending rates.

Verification of Facts: A reasonable effort shall be made to verify facts relevant to the management and investment of funds.

Volatility: The Primary Investment Goal can best be achieved by assuming acceptable risk levels commensurate with long-term market volatility; therefore, the Committee will measure and seek to limit the overall level of volatility to an acceptable level as it makes specific asset allocation decisions.

V. TARGET RATE OF RETURN

The Target Rate of Return represents the Committee's reconciliation of, or bringing together, its long-term (10 to 20-year) estimates of: the Fund's probable rate of return net of all expenses, the administrative endowment fee, the spending allowance, an inflation provision, and portfolio

growth from earnings, if any. The Target Rate of Return is intended to help coordinate the structuring of the investment portfolio and its asset allocation with the funding needs of the Foundation and the endowment beneficiaries. The Committee shall annually review and modify the Target Rate of Return as it considers necessary. In setting the Target Rate of Return, the Committee shall make an effort to preserve intergenerational equity to the extent practicable by providing for a reasonable provision for inflation.

VI. TARGET ASSET ALLOCATION

A significant portion of a portfolio's investment behavior can be attributed to the asset classes which are employed and the weighting of each asset class; therefore, a major responsibility of the Committee is the adoption of the Target Asset Allocation. The Committee shall select and approve a Target Asset Allocation that it believes offers a reasonable probability of achieving the Fund's investment objectives within a framework of commonly accepted risk factors and this Policy. The Committee shall periodically consider capital market conditions, the universe of investment options, the current asset allocation, and approve revisions to the Target Asset Allocation as it considers necessary.

The Investment Guidelines and Philosophy Statement, which includes the asset allocation adopted by the Committee, as it may be amended from time to time, shall be incorporated into this Policy by reference. (See the Attachments to this Policy)

VII. ASSET ALLOCATION REBALANCING

The asset allocation shall regularly be rebalanced to minimize extraordinary deviations. To the extent practicable, the rebalancing shall be accomplished through the investment of new contributions, reinvestment of other cash flows, and such other means as may be approved by the Director of Finance. The Director of Finance shall report, or cause to be reported, to the Committee each quarter any uncorrected variances from the Target Asset Allocations (those deviations that are outside of the pre-authorized asset allocation variance bands) and the plan to correct such deviations.

VIII. PORTFOLIO PERFORMANCE BENCHMARKS

Performance of the Fund will be measured by several benchmarks in order to evaluate progress towards its Primary Investment Goal, the performance of the Fund relative to market conditions and its peers, and the impact of asset allocation and active management, as follows:

Policy Benchmark 1: Baseline performance of a Policy Benchmark Portfolio consisting of 80% MSCI ACWI, 15% Barclays Aggregate, and 5% 90-day Treasuries for the relevant periods (This Benchmark provides a comparison of actual performance to a simple passively managed traditional portfolio at the maximum risk level acceptable to the Committee and the Board);

Policy Benchmark 2: Baseline risk adjusted returns (Sharpe Ratios) for a Policy Benchmark

Portfolio consisting of 80% MSCI ACWI, 15% Barclays Aggregate, and 5% 90-day T-Bills for the relevant periods (This Benchmark provides a comparison of actual performance to a simple passively managed traditional portfolio at the maximum risk level acceptable to the Committee and the Board);

Policy Benchmark 3: Baseline performance equal to the Target Rate of Return for rolling five year periods (This benchmark monitors progress towards attainment of the Primary Investment Goal);

Peer Benchmark 1: Baseline performance of the Cambridge Endowment-Foundation Universe or other appropriate peer group for the relevant periods (This benchmark provides comparison to a broad group of peers.);

Peer Benchmark 2: Baseline risk adjusted returns (Sharpe Ratios) of the Cambridge Endowment-Foundation Universe or other appropriate peer group for the relevant periods (This benchmark provides a risk adjusted comparison to a broad group of peers.);

Peer Benchmark 3: Baseline performance of the compounded, equal weighted, average nominal return for endowment funds in the \$100 to \$500 million classification participating in the NACUBO - Commonfund Study of Endowments (NCSE) for the relevant periods as reported annually (This benchmark provides an annual comparison to the largest industry-specific endowment peer group.);

Custom Benchmark 1: Baseline performance of a weighted benchmark portfolio at the target asset allocation for relevant periods (This benchmark provides a comparison to a passive portfolio at the target neutral weights.); and

Custom Benchmark 2: Baseline risk adjusted performance (Sharpe Ratios) of a weighted benchmark portfolio at the target strategic asset allocation for relevant periods (This benchmark provides a risk adjusted comparison to a passive portfolio at the target neutral weights.).

Although this Policy includes multiple benchmarks, each serves a specific purpose when compared to actual or to each other. For instance: a comparison of Policy Benchmark 1 to actual performance provides a rough measure of the effect of the strategic allocation and the implementation (manager selection plus tactical allocations); while a comparison of Policy Benchmark 1 to Custom Benchmark 1 provides a rough attribution measure of the value added by the strategic allocation or structure of the portfolio alone; and, a comparison of Custom Benchmark 1 to actual performance provides a rough attribution measurer of the value added by the Fund Manager through manager selection and tactical allocations.

IX. DELEGATION AND ASSIGNMENT OF DUTIES AND AUTHORITY

Effective and cohesive relationships among the Boards, the Committee, Director of Finance and other Foundation staff, other committees and external advisors, Fund Managers and investment managers are important to fulfilling the purposes of this Policy and the Fund. The major duties and responsibilities of the Committee and the Director of Finance as determined by the Boards are assigned and delegated as presented herein. Authority to carry out duties delegated and assigned

to the Committee and the Director of Finance may be further delegated to professional managers, advisors, and qualified Foundation staff.

1. Responsibilities of the Boards:

- a. Maintaining the overall stewardship of the Fund in accordance with the Consolidated Endowment Fund Agreement, AS 13.65.010 – 13.65.095 and AS 37.10.071, as they may be amended or restated from time to time;
- b. Adopting the policies needed for the prudent investment and administration of the Fund;
- c. Delegating and assigning duties and authority to the Committee and the Foundation Staff;
- d. Reviewing the performance of the Fund and activities of the Committee on a regular basis.

2. Committee Responsibilities:

- a. Ensuring that the assets of the Fund are managed in a manner that is consistent with the law and this Policy;
- b. Developing and making recommendations to the Boards regarding investment policies and objectives, spending rates and other related matters that support the purposes of the participating funds and endowments;
- c. Developing and approving an investment philosophy and guidelines for implementation of that philosophy;
- d. Directing engagement of and authorizing agreements for the engagement of Fund Manager(s), advisors, and custodians engaged by the Committee;
- e. Approving Target Asset Allocations and related benchmarks consistent with meeting the objectives and risk tolerances described in this Policy;
- f. Approving the classes of investments that are acceptable investments for the Fund;
- g. Approving the level of commitments to future investments;
- h. Approving guidelines and procedures for selection and monitoring of investment managers engaged by the Committee;
- i. Reviewing and evaluating investment results and directing or recommending implementation of corrective action as may be considered appropriate;
- j. Advising the Board of Directors and other committees regarding return expectations and spending allowance issues;
- k. Making timely reports to the Boards regarding investment results, material events affecting the Fund, and Committee activities and actions;
- l. Reviewing this Policy periodically and making recommendations for modifications as may be considered necessary by the Committee;
- m. Assigning duties to Fund Manager(s), advisors, investment managers and custodians

engaged by the Committee.

3. Foundation Staff Responsibilities

- a. Conducting an annual due diligence review of the Fund Manager(s) and its operations, including manager due diligence procedures and independent reviews of selected managers with the assistance of the Fund Manager;
- b. Executing directives of the Committee and actions authorized by this Policy;
- c. Recommending Fund Manager, advisor, investment manager and custodian selections and terminations for those directly engaged by the Committee;
- d. Preparing or reviewing asset allocation analyses and recommending revisions as appropriate;
- e. Supporting the activities of the Committee and facilitating communications with and between the Committee, Fund Manager(s), advisors, investment managers, and custodians engaged directly by the Committee;
- f. Timely evaluating and reporting to the Committee on investment performance no less frequently than quarterly;
- g. Reporting annually on investment fees and costs to the Committee;
- h. Reporting to the Committee any litigation or violations of applicable laws or regulations involving the Foundation, Fund Managers, advisors, investment managers or custodians that come to its attention;
- i. Reconciling investment statements with the Foundation's financial records, and reporting investment activity on the Foundation's financial statements;
- j. Reviewing private placement memorandums, partnership agreements, and other documentation, and seeking legal or other advice as may be considered necessary;
- k. Executing and submitting subscription agreements, contracts, and redemption requests associated with new investments, partial or complete redemptions, and manager terminations for direct investments and contracts by the Committee;
- l. Providing the current policy and investment guidelines and mandates to the Fund Manager and investment managers engaged by the Committee;
- m. Monitoring audit standards and regulations concerning the financial and tax reporting of investments and establishing procedures required to insure compliance with external reporting requirements;
- n. Managing portfolio cash inflows and outflows and calls and distributions for funds and investments not under the management of a Fund Manager;
- o. Developing guidelines and procedures for manager selection and monitoring;
- p. Executing account agreements with banks, investment managers and other entities engaged directly by the Committee; and

- q. Performing all duties as may be directed by the Committee or deemed necessary or desirable for the efficient administration and protection of assets of the Fund.

X. PERFORMANCE EVALUATION OF THE FUND MANAGER

- a. General investment performance reviews will be conducted by the Committee quarterly;
- b. The Director of Finance will report to the Committee the findings of his or her annual due diligence review of the Fund Manager; and
- c. The Committee shall evaluate the Fund Manager's general performance and service levels at least every two years based on criteria as considered applicable by the Committee, including:
 - Continuity of personnel and practices of the firm,
 - Communications with the Committee,
 - Adherence to the philosophy and standards, which were articulated when retained,
 - Performance of investment manager due diligence and monitoring of investment activities,
 - Quality of the Fund Manager's investment performance reporting,
 - Helpfulness of the advice and other input to the Committee's decision-making process,
 - Assistance provided to staff in accomplishing their activities.

XI. MANAGEMENT OF FUNDS

Fiscal Year: The fiscal year for the Fund shall be July 1 through June 30.

Fund Manager: A manager of investment managers that has full or nearly full discretion in the management of all or a major segment of the endowment portfolio and functions as an extension of the in-house investment staff.

Investment Committee or Committee: The Investment Committee as described in Section 5 of the Consolidated Endowment Fund Agreement.

Investment Earnings: Investment earnings and losses (net of investment fees and costs) shall be allocated proportionately to each participating fund based on their relative interests in the Fund during the respective period.

Permanently Restricted Net Assets: The fair value of the original and subsequent gifts to a permanent endowment.

Quasi-Endowment Fund: A fund that functions similar to an endowment, but is established or designated by authority of the Board of Directors or Board of Regents rather than a donor or other independent party.

Related Party Transaction: The Fund will not loan funds or securities to the University, the Foundation or related parties, including their officers, members of the Committee or Boards, employees, donors or affiliated entities either current or prospective.

Securities Lending: Investment managers or the custodian may engage in securities lending,

or the "loan" of the Fund's securities in return for interest, to broker-dealers as a means of enhancing income only pursuant to approval of the Committee.

Term Endowment Fund: A fund that functions similar to an endowment fund except that at some future time or upon the occurrence of a specified future event the funds originally contributed become available for expenditure.

True Endowment: A fund that is not wholly expendable by the institution on a current basis under the terms of a gift instrument or other record.

Underwater Endowment: An endowment fund which has negative accumulated earnings (accumulated distributions and losses exceed accumulated earnings).

XII. CONFLICTS OF INTEREST

All Committee members and Foundation staff responsible for making or advising on investment decisions shall comply with the Foundation's Conflict of Interest Policy and all persons providing advice to the Committee or the Boards on investment matters shall disclose at the beginning of any discussion or consideration of any investment issue, 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 discussion or consideration. The Committee member may recuse himself or herself from the decision-making process, or the Committee chair may require such persons to remove themselves from the process. All such disclosures shall be recorded in the minutes of the respective meeting.

Any member of the Committee or individual responsible for making or providing advice to the Committee on investment matters shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably be perceived to influence them in the discharge of their duties unless disclosed in writing to the Committee chair. Failure to disclose any material benefit may be grounds for disciplinary action including removal from the Committee. This provision shall not preclude the payment of ordinary fees and expenses to the Foundation's custodians, investment managers, or advisors in the course of their services on behalf of the Foundation.

XIII. COMMITTEE APPROVED ATTACHMENTS

The Investment Committee shall include, as attachments to this Policy, procedures and other documents that the Committee has adopted or determined to be relevant to implementation or interpretation of this Policy.

1. The Uniform Prudent Management of Institutional Funds Act (AS 13.70.010 – 13.79.095)
2. Investment Powers and Duties (AS 37.10.071)
3. Investment Guidelines and Philosophy Statement
4. Target Rate of Return
5. Endowment Spending Guidelines