

## **THE UNIVERSITY OF ARIZONA FOUNDATION INVESTMENT POLICY STATEMENT**

The Investment Committee appointed by the Board of Trustees of the University of Arizona Foundation (the “Committee”) sets forth herewith its statement of investment policies. These policies are subject to change from time to time. At all times these policies shall recognize and implement the restrictions and directions that may have been placed on gifts by donors. These policies shall comply with all applicable laws and shall be changed as necessary to comply with changes in applicable law or legal advice.

### **INVESTMENT OBJECTIVES AND ASSET ALLOCATION**

#### **Unrestricted Fund**

Preservation of principal with the highest degree of liquidity is the primary objective for the Unrestricted Fund. Accordingly, Unrestricted assets shall be invested in a US Treasury Money Market Fund.

#### **Restricted Fund**

The Foundation’s goal is to provide the benefiting unit with these assets when requested on a dollar-for-dollar basis with minimal notice except during periods of significant financial market distress when additional notice may be required. Preservation of principal is therefore the primary objective for this fund, and the Restricted Fund should be structured to produce a highly probable positive return for any given fiscal year period. Negative returns over any fiscal year period are highly undesirable. Marginal negative returns in any given quarterly period will be tolerated; however negative returns in those periods are also undesirable. Along with the responsibility of principal protection, the Foundation has the right to retain dividends, interest and realized gains from the Restricted Fund as an administrative fee. As this fee plays an integral role in financing the activities of the Foundation, the secondary objective of the restricted fund is to generate current income. The Foundation’s Board of Trustees determines each year a fair and reasonable fee for its services in the administration of its funds and has selected this arrangement as a reasonable basis to meet its goals to beneficiaries and permit the corporation to recover its costs. The Foundation has elected to forego a portion of its administrative fee on individual accounts over \$750,000; the Foundation allocates interest to such accounts at 50% of the rate paid by the US Treasury Money Market Fund, up to a cap of 1.0% per annum.

To meet the two objectives outlined above, restricted assets available for investment will be invested in accordance with an asset allocation model adopted from time to time by the Committee and subject to approval by the Board of Trustees; the current model is attached as “**Exhibit A**”. The Outsourced Chief Investment Officer will cause a report to be provided to the Committee each month showing the actual and target allocations and the performance of the Fund.

#### **Life Income Funds**

The current Investment Policy for the Foundation’s life income funds is attached as “**Exhibit C**”.

## **Endowment Fund**

**1. Goal:** To manage these assets such that the annual nominal return exceeds the annual “hurdle rate” (the sum of the Payout and the Endowment Fee) such that the endowment principal is able to grow and continue to fund in perpetuity the set of activities envisioned by the donor at the time of the gift. In establishing this goal, the Committee defines the primary risks to the endowment as (1) the failure to achieve our goal over a full market cycle; (2) Volatility of returns; and (3) Permanent loss of capital.

Establishing a framework of acceptable ranges and specific targets for the various asset categories and sub-categories is the best way to achieve our goal. This “model portfolio” approach provides long-term strategic allocations to various sources of investment return, creating a diversified portfolio that seeks to generate long-term returns consistent with the above stated goal while managing the primary risks. Capital market returns may not be sufficient in certain periods to meet the portfolio goal. The Committee shall explicitly consider the risk of the model portfolio as expressed by the standard deviation of returns. The Committee recognizes this is an imperfect measure of risk, which at its core is best defined as the permanent loss of investment capital. Processes and policies in place to reduce the likelihood of a permanent loss of capital include but are not limited to (a) the performance of due diligence on prospective managers and continued monitoring of all managers, (b) considering the price of a recommended investment and/or fund at time of purchase, and (c) adding no leverage at the Endowment portfolio level.

Ranges and targets need to be addressed on an annual basis. Ranges should be broad enough to provide guidance in both bull and bear market cycles, and changes to the ranges should be both infrequent and minor in scope. Targets need to reflect the Outsourced Chief Investment Officer’s and Committee’s best thinking as to the intermediate (7-10 year) term outlook for the various asset classes. Changes are expected on an annual basis; gradual change is more prudent than drastic change in any annual review. The target percentages and acceptable percentage ranges for the various asset classes available to the endowment pool will be established and/or reviewed on an annual basis as the major item of business at the Committee’s first meeting of each fiscal year and subject to approval by the Board of Trustees.

The current endowment model is attached as “**Exhibit B**”

**2. Payout Rate:** The Foundation’s policy is to payout a percentage (“Payout Rate”), established as discussed below, of the average fair value of the corpus of an endowment at the end of the twelve quarterly periods within the three previous calendar year-ends. The Foundation’s policy also calls for the declaration of a payout whether or not the fair value of an individual account exceeds its historic gift value, unless otherwise precluded by the donor or by law (this practice recognizes the fact that the inability of the corporation to spend anything from an endowment is likely to be contrary to a donor’s intent to provide current benefits to the designated purpose/unit). The Committee shall establish at its first meeting of each calendar year the Payout Rate to be used for the upcoming fiscal year. The Payout Rate established by the Committee is subject to approval by the Foundation’s Board of Trustees. The Committee shall strive to maintain a Payout Rate which achieves intergenerational equity, so today’s payout beneficiaries

do not unfairly benefit at the expense of future beneficiaries or vice-versa. In addition to considering this Investment Policy Statement and the goal/mission of the endowment fund as stated in Item 1 above, the Committee shall consider, if relevant, the following items in their annual deliberations on the establishment of a reasonable Payout Rate:

- The net rate of return earned by the Endowment in each of the five most recent fiscal years
- The net real (as measured by the Higher Education Price Index) rate of return earned by the Endowment in each of the five most recent fiscal years
- Payout rates established by other university endowments as published in the NACUBO-TIAA Study of Endowments.
- Other resources available to the University, and any unusual or extraordinary circumstances impacting these resources (tuition revenues, State appropriations, etc.)
- The extent to which programs benefiting from the Payout Rate rely on these funds to achieve their goals and objectives (e.g. the Karl Eller Center)
- Recommendation from the Outsourced Chief Investment Officer
- The Payout Rate in effect at the time of the deliberations
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of the endowment per the most recent asset allocation study

Payout shall be capitalized and reinvested into the corpus for the first twelve months subsequent to the funding of each new endowment account.

The minutes of the Committee meetings will document the items considered as part of its deliberations; the applicable portion of the meeting minutes plus all documents reviewed by the Committee in establishing the Payout Rate shall be added to the minutes of the Foundation and placed in its books and records.

**3. Endowment Fee:** The Foundation has considered different approaches to establish a fair and reasonable fee in connection with its services associated with the administration of the endowments and has determined that it is not practical to establish individual fees for separate endowments and that the cost and time necessary for such an approach outweigh any benefits. Therefore, the Foundation has elected to establish a fair and reasonable uniform fee applicable to all endowments of 1% (per annum) of the fair value of the endowments, assessed monthly in arrears.

## **AUTHORITY AND RESPONSIBILITY**

### **The Investment Committee**

The Committee is responsible for directing and monitoring investment of the Foundation's investment assets, but is authorized to retain and solicit the recommendations of qualified professionals including the (a) Outsourced Chief Investment Officer, (b) Investment Managers and (c) Investment Custodians. The Committee's major responsibilities involve developing

policy and providing advice and direction to the Board of Trustees on strategic matters, including but not limited to:

- Approving investment products for inclusion in or removal from the Foundation's portfolios.
- Monitoring the Foundation's investments for compliance with all laws, rules and regulations, including but not limited to the *Management of Charitable Funds Act* as implemented by the State of Arizona from time to time.
- Approving an asset allocation model for the Restricted and Endowment Funds, and any other funds established by the corporation from time to time, including consideration of the appropriate rates of return and risk for such funds. This model will include ranges and targets for the asset classes available for investment, and will also include consideration of the best way to implement the model (value vs. growth, passive vs. active, etc.). The recommended models will be submitted to the Board of Trustees for their consideration and approval.
- Approving on an annual basis the contract with the Outsourced Chief Investment Officer.
- Recommending to the Board of Trustees the Payout Rate on an annual basis.
- Reviewing performance at both the manager and portfolio level on a periodic basis and, if necessary, instructing the Outsourced Chief Investment Officer to conduct additional due diligence on any investment manager/product.
- As a regular part of its meeting agenda, assessing the ESG and Sustainability matters noted at page 8 of the Statement,
- Reviewing on an annual basis the continuing sufficiency of these policies.
- Providing regular and detailed reports to the Foundation's Board of Trustees at its regularly scheduled meetings in form and content sufficient for the Trustees to exercise their duty of oversight. The Committee shall also provide to the Board of Trustees its recommendations in connection with any specific investment products being considered and with respect to any suggested changes in these investment policies.

The Committee's responsibilities noted above are defined in the Investment Committee Charter as amended from time to time.

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

The OCIO serves as an advisor to the Investment Committee, and will assist the Committee as needed in carrying out their responsibilities noted above. Additional responsibilities of the OCIO include:

- Recommending any changes to the Endowment and Restricted asset allocation models on an annual basis.
- Recommending new and replacement investment products from their manager due diligence and selection process. Such recommendations shall include products that incorporate the ESG and Sustainability matters noted at page 8 of these policies.
- Providing written comments and recommendations on the Foundation's Investment Policy as needed, but on no less than an annual basis.
- Providing all necessary materials to Committee members in advance of each Committee meeting.
- Preparing monthly reports to the Committee showing the performance of each manager, how such performance compares to the benchmark(s) selected for such manager, and to the extent possible showing on a quarterly basis the quartile in which such performance is ranked.
- Assisting the Staff Liaison in preparing an annual report on the Foundation's endowment, including performance, allocation and ESG/Sustainability information important to the donor and campus community.
- Working with the Staff Liaison to develop and schedule meetings of the Investment Committee such that all important matters are brought to the Committee's attention in a timely fashion.
- Monitoring the Restricted and Endowment portfolios to ensure that assets remain within the designated ranges as specified in the asset allocation models, and implementing appropriate actions to address situations where the actual allocation differs from the target allocation by a material amount.
- Monitoring each business day all assets held by the custodian and investigating any significant or unusual changes.
- Meeting with all incoming Committee members to ensure they are fully briefed prior to attending their first meeting.
- Reviewing and signing all offering documents for new investment products approved by the Committee.
- Providing the Committee with reports comparing investment performance and asset allocation with peer institutions as published in the NACUBO-TIAA Study of Endowments.
- Monitoring and reporting on adherence of investment products to this Investment Policy. Providing updates to the Committee on investment products and managers, including

departures of key personnel, style drift, changes in investment process and any other matter requiring the Committee's attention including a recommendation that an investment manager be retained or terminated.

- Being a signatory to the Principles of Responsible Investing.

### **The Investment Managers**

Investment managers shall:

- Act as responsible fiduciaries in all matters involving their management of Foundation assets and comply with all applicable laws, rules and regulations.
- Operate at all times within the applicable law and regulations applicable to the industry/sector and consistent with their Environmental, Social, and Governance Policy, which has been drafted to incorporate best practices within the industry/sector
- Report all activity to the OCIO on a timely basis as agreed, but in no event will such report be provided on less than a quarterly basis. Such reports shall include a comparison of performance with the agreed-upon benchmark, and will include details about the holdings and strategies of the applicable product.
- Vote, or cause to be voted, all proxies on securities held by the Foundation.
- Provide the CFO with copies of audited financial statements covering the investment product in a timely manner.
- Make presentations to the Investment Committee when and as requested.
- Maintain a strict adherence to the mandate under which they were engaged.
- Provide the OCIO with a written report within five business days of the following matters: (a) change in ownership or legal entity status; (b) change in key personnel, including a change in anyone on the product portfolio management team; (c) change in investment philosophy or style (d) civil or criminal charges filed against the firm by a regulator.

## **PERFORMANCE MEASUREMENT AND REPORTING**

### **Performance Measurement**

The OCIO shall prepare or cause to be prepared a report comparing each investment manager's performance to benchmarks as agreed upon from time to time. Benchmarks will include the appropriate primary asset class benchmark, as well as any secondary or style-related benchmarks, where applicable. Where applicable, this report will include a comparison of the

managers versus appropriate peer groups available from recognized reporting services. This report is to be provided to the Committee on a monthly basis.

The following table outlines the Benchmarks to be used for the Foundation’s asset classes in situations where a specific benchmark is not agreed upon with a manager. The primary benchmark is listed first, with any secondary benchmarks following:

<b><u>Asset Class</u></b>	<b><u>Benchmark(s)</u></b>
Cash	US 91-day T Bills
Public Equity-U.S.	Russell 3000 Index
Public Equity-Global	MSCI AC World Index
Public Equity-Int’l Developed	MSCI EAFE Index
Public Equity-Emerging Markets*	MSCI Emerging Markets Index
Public Fixed Income	Barclays U.S. Aggregate
Private Credit	Thomson One Distressed Thomson One Mezzanine
Private Equity	Thomson One All Private Equity
Diversifying Strategies	The applicable HFRI Index CPI + 500 basis points
Public Real Assets	S&P Developed BMI Property Index FTSE Gold Mines Index
	Thomson One Private Real Estate Index S&P Developed BMI Property Index
Private Real Assets	Thomson One Private Natural Resources NCREIF Timberland Index Thomson One Real Estate

*\*New investments in Russian assets are not allowed.*

In addition to the performance reports noted above, on a quarterly basis the Outsourced Chief Investment Officer will prepare or cause to be prepared a report which compares the actual performance for the quarter with the performance of the “policy portfolio”, which is to be computed using the target allocation and primary benchmark for each asset class as shown above. The report shall include an explanation for any significant differences between the actual return and the policy portfolio return.

The OCIO will make recommendations to the Investment Committee on any proposed adjustments to the benchmarks shown above. The Committee shall determine the advisability of any such changes from time to time and make prompt recommendations to the Board of Trustees.

## **Reporting**

**Reporting to OCIO:** All managers shall provide a monthly (quarterly for Private Equity, Private Credit, and Private Real Assets) performance report to the OCIO in the form and manner as agreed to from time to time.

## **ESG and Sustainability**

The Committee and Board seek to ensure the Foundation and all related parties conduct business with ethical standards and ensure that our business practices comply fully, in appearance and deed, with all applicable laws and regulations. In managing the portfolio, all constituents and related parties who are affected by Foundation's activities are treated fairly and without prejudice to gender, race, ethnic or national origin, socioeconomic status, age, religion or disability. We encourage and embrace the efficient use of natural resources and continuously look for and expect the leading environmental solutions to be executed by our investment managers for their underlying investments in companies or physical assets. The Foundation has invested in ESG strategies and managers since December 2003.

Mindful of our goal for managing the endowment as noted at page 1, the Committee will consider the extent to which an investment is consistent with the principles and goals of the University. Where appropriate, the Foundation may seek to influence or avoid those investments that conflict with those principles and goals. Action will only be taken, however, if the Committee believes it would not cause harm to the investment objectives of the Fund, impair performance or place a material burden on the current resources of the Endowment.

## **MEETINGS**

The Committee shall meet on the dates and times approved by the Committee at the last meeting of each fiscal year. In addition to these scheduled meetings:

- The Chair of the Committee may call a special meeting at any time with at least 72 hours notice.
- The OCIO is empowered to conduct meetings via electronic or similar means if a particular investment product or other item of significance requires immediate action by the Committee.



## **ADMINISTRATIVE FEES**

The annual fees assessed for the endowment funds and the restricted assets are set out above. In addition to such fees the Committee shall recommend to the Board of Trustees from time to time any special arrangements where it is appropriate to establish a different fee and its basis for doing so.

**University of Arizona Foundation  
Investment Policy Statement  
Restricted Fund Asset Allocation  
Exhibit A**

<u>Asset Classes</u>	<u>Sub-Categories</u>	<u>Range of Allocation</u>	<u>Target %</u>
Cash		0%-50%	<b>45%</b>
U.S. Equities	Large-Cap	0%-25%	<b>7%</b>
U.S. Fixed Income	Public Fixed Income	0%-60%	34%
	Private Credit	0%-20%	2%
	<b><i>Sub-total</i></b>		<b>36%</b>
Real Assets		0%-5%	<b>4%</b>
Absolute Return		0%-25%	<b>8%</b>
	<b>Grand Total</b>		<b>100%</b>

**University of Arizona Foundation  
Investment Policy Statement  
Endowment Fund Asset Allocation  
Exhibit B**

<u>Asset Classes</u>	<u>Sub-Categories</u>	<u>Range</u>	<u>Target</u>
<b>Equity</b>	Public Equity	25-45%	
	US		20%
	Global		4%
	Int'l Developed		9%
	Emerging Markets		<u>5%</u>
	Total Public Equity		38%
	Private Equity	10-30%	<u>23%</u> <b>61%</b>
<b>Real Assets</b>	Private Real Assets	5-15%	<u>12.5%</u> <b>12.5%</b>
<b>Fixed Income</b>	Cash	0-10%	5%
	Public Fixed Income	5-20%	7.5%
	Private Credit	0-6%	<u>3%</u> <b>15.5%</b>
<b>Diversifying Strategies</b>		5-25%	<b>11%</b>
	<b>Grand Total</b>		<b>100%</b>