



Delaware State University

University Area(s) Responsible: University Foundation

Policy Number & Name: 15-05 Investment Management Policy

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I. Purpose

The purpose of this Investment Policy (this “Policy”) is to provide guidelines for the prudent management of the University’s investments (the “Portfolio”) and is intended to assist the University’s Board of Trustees (the “Board”) in supervising and monitoring the Portfolio. The Policy defines the University’s investment objectives and the responsibilities of and standards applicable to those involved in the investment and management of the Portfolio.

II. Scope

This Policy is intended to be a summary of an investment philosophy and the procedures that provide guidance for DSU, the Board, Investment Committee, Investment Advisor, and Investment Manager(s).

III. Policy

A. Management and Investment Objectives

The endowment Fund shall be invested with the objective of preserving the long-term real purchasing power of the Reserve Fund’s assets while seeking an appropriate level of investment return. More specifically, the University’s investment objectives and constraints for the Reserve Fund include the following:

1. Preservation of Purchasing Power. The University aims to at least preserve the real purchasing power of its assets over time by seeking returns on its investments that are in excess of the spending rate (described below) and the rate of inflation.
2. Long-Term Growth. The Board’s investment objective for the fund is to attain an average annual real total return¹ (net of investment management fees) of at least 5% over the long term, as measured over rolling five-year periods.
3. The University seeks to achieve growth in its assets in excess of inflation by emphasizing long- term investment fundamentals in structuring its investments.

¹ Real total return is the sum of capital appreciation (or loss) and current income (dividends, interest, and rents) adjusted for inflation (as measured by the Consumer Price Index).

4. Time Horizon. The University intends to invest for the long-term, with the total return on the Portfolio evaluated on a five-year rolling basis. It is recognized that not every five-year period will meet the University's objectives, but the University aims to attain its objectives over a series of five-year periods.
5. Risk Tolerance. The Board's risk tolerance can be characterized as medium to medium low. The University seeks to control risk and reduce the volatility in its Portfolio through diversification. However, short-term volatility is characteristic of the securities markets and will be tolerated if such volatility is consistent with the volatility of similar investment portfolios (such as the volatility of performance benchmarks, described below). The University recognizes and acknowledges that some risk must be assumed in order to achieve the long-term investment objectives of the Portfolio. In establishing its risk tolerance, the University's ability to withstand short- and intermediate-term variability as well as the statistical probability of loss for a given period of time for the Portfolio is evaluated by the Investment Committee.
6. Liquidity Requirements. The University seeks investment returns that will maintain adequate liquidity to meet its operational requirements for each six month-period as determined by the Board. The Board or Investment Committee will inform the Investment Adviser (as defined below) of any anticipated need for additional liquidity as such need becomes known. The Investment Adviser will presume no liquidity needs other than those provided by this Policy or the Board or Investment Committee.
7. Institutional funds shall be managed in accordance with Delaware Title 12, Chapter 47, Uniform Prudent Management of Institutional Funds Act, "Uniform Management of Institutional Funds Act" (UMIFA) (59 Del Laws, c. 572, §1).

B. Portfolio Composition and Risk

The University, the Foundation, and the Federal Matching funds are managed distinctly; DSU Foundation will follow overall investment guidelines of 65% stocks /35% bonds +/-10, DSU Endowment will follow overall investment guidelines of 73% stocks /27% bonds +/-10,, and the DSU Fed matching funds will be managed in compliance with Federal restrictions to the extent possible and following overall investment guidelines of 73% stock/27% bonds+/-10%.

This allocation is based upon the following assumptions:

1. Over the long-term, traditional equities, have historically provided a greater total return than bonds or cash;
2. A long-term perspective is appropriate for a perpetual organization such as Delaware State University;
3. DSU has no compelling operating or legal requirements to support a contrary approach.

DELAWARE STATE UNIVERSITY FOUNDATION INC.

Asset Class	Minimum	Target	Maximum
1. Investment Grade Fixed Income	10.0%	24.8%	35.0%
2. Other Fixed Income	0.0%	9.8%	20.0%
3. US Equity	30.0%	40.5%	50.0%
4. Non-US Equity	15.0%	24.9%	35.0%

SUB-PORTFOLIO 1: DELAWARE STATE UNIVERISTY ENDOWMENT

Asset Class	Minimum	Target	Maximum
1. Investment Grade Fixed Income	14.0%	16.9%	20.0%
2. Other Fixed Income	8.0%	9.8%	11.5%
3. US Equity	33.5%	40.5%	47.5%
4. Non-US Equity	20.5%	24.9%	29.0%

SUB-PORTFOLIO 2-8: DELAWARE STATE UNIVERISTY FEDERAL MATCH GRANT I – VII

Asset Class	Minimum	Target	Maximum
1. Investment Grade Fixed Income	14.0%	16.9%	20.0%
2. Other Fixed Income	8.0%	9.8%	11.5%
3. US Equity	33.5%	40.5%	47.5%
4. Non-US Equity	20.5%	24.9%	29.0%

The investment committee has adopted this allocation in recognition of the primary objective of the endowment-- to preserve real purchasing power over time. It is expected that long-term (five to ten years) the total investment return will at least meet, and preferably exceed, the overall investment objective, and respective, benchmark return. If the value of any asset class is to exceed the maximum level, approval from the Board of Trustees is needed.

It should be noted that the division of the fund's assets by asset class need not necessarily be related to the division of assets by its outside investment managers.

The purpose of dividing the fund in this manner is to ensure that the overall asset allocation between these two major asset classes remains under the regular scrutiny of the Board of Trustees.

1. The purpose of the fixed income fund is to provide a hedge against deflation, to provide more stable returns relative to an all equity fund, and to reduce the overall volatility of the fund.
2. The percentage of total fund assets allocated to the fixed income fund at any time should be sufficient to ensure that neither the current income nor the capital value of the total fund declines by 20% during an extended period of inflation. The fixed income fund for the DSU Foundation should normally represent approximately 34.6% of the total fund assets at market value, 26.7% for the DSU University Endowment and the Federal Matching funds. Although the actual percentage will fluctuate with market conditions, levels less than 20% or in excess of 45% shall be closely monitored by the Development and Investment Committee. To ensure that the ratio does not fall below 20% or rise above 45% level, periodic rebalancing should be carried out as needed.

C. Responsibilities

The Board, or such members of the Board as so designated, has responsibility for investing and managing the Portfolio as well as the responsibility for establishing and modifying this Policy, including establishing the asset allocation for the Portfolio. The Board has delegated to the Investment Committee these responsibilities.

The Investment Committee, the University's designated staff, the University's investment adviser (the "Investment Adviser"), and the investment managers (the "Investment Managers") are charged with implementing this Policy. Their respective responsibilities are set forth below.

1. Investment Committee

The Investment Committee is responsible for:

- Establishing, reviewing periodically, and modifying this Policy and its appendices from time to time, and reporting any changes to the Board.
- Setting the asset allocation targets and ranges for the Portfolio, and modifying them from time to time.
- Implementing this Policy, with input from University staff and the Investment Adviser.
- Overseeing the Portfolio's assets and reporting on the status of the Portfolio to the Board at least two times a year.
- Engaging the Investment Adviser to assist the Investment Committee in carrying out its investment responsibilities and to implement the investment strategy and decisions of the Investment Committee.
- Continuing or terminating the Investment Adviser and monitoring its performance.
- Engaging and continuing or terminating the Investment Adviser's bank custodian, and monitoring its performance.
- Monitoring the fees and other expenses associated with the management and administration of Portfolio.

2. Investment Adviser

The Investment Adviser is responsible for:

- Guiding the Investment Committee with respect to the strategic asset allocation.
- Setting and implementing any tactical strategy that seeks to take advantage of market dislocations (*i.e.*, underweight/overweight specific sectors).
- Implementing rebalancing on a periodic basis or when otherwise appropriate.
- Implementing the Portfolio's asset allocation through the selection, continuation, and termination of Investment Managers.
- Selecting, continuing, or terminating Investment Managers based on appropriate criteria, including the following: investment philosophy, historical performance, experience of key personnel, and financial viability or changes in these factors. (This Investment Manager Selection responsibility also includes the ongoing monitoring of the Investment Managers for adherence to this Policy and his, her, or its stated investment strategy.)

- Reviewing Investment Managers, establishing the scope and terms of the delegation to Investment Managers, and monitoring their performance and compliance with the scope and terms of the delegation.
- Monitoring, analyzing the performance of, and recommending performance benchmarks for each Investment Manager.
- Preparing investment reports at least quarterly for the Investment Committee's review that contain the information necessary for the Investment Committee to exercise its judgment and carry out its investment responsibilities prudently.
- Attending meetings in person or by telephone conference with the Investment Committee and the University's staff as requested.
- Providing necessary information to and cooperating with the Investment Committee, University staff, and the University's external auditors.
- Providing feedback regarding changes to this Policy when requested by the Board or the Investment Committee and proposing corresponding amendments to the relevant account documents, if necessary.

3. Investment Managers

Each Investment Manager is responsible for:

- Adhering to the investment strategy for which the Investment Manager was selected.
- Acting in accordance with the standard of care and restrictions on investment management set forth in this Policy.
- Preparing quarterly written statements, including a summary of the actions taken with respect to the University's assets under management.
- Suggesting performance benchmarks (described below) to facilitate the Investment Committee's and Investment Adviser's evaluation of the Investment Manager's performance.
- To the extent that the Investment Manager is authorized and directed by the Investment Committee or Adviser, voting all proxies for the University's securities.
- Taking reasonable steps to promptly communicate significant changes in the Investment Manager's firm to the Investment Adviser, including: changes in senior management or high-level personnel; changes in the Investment Manager's ownership; and changes in the Investment Manager's investment strategy and/or style.
- Taking reasonable steps to promptly report to the Investment Adviser any [material] violation of this Policy, and any material adverse determinations against the firm or its principals, either by a court, the Securities Exchange Commission, or any other regulatory authority.

4. University Staff

University staff is responsible for assisting the Investment Committee with all components of this Policy, including coordination of outside professionals involved in supporting the investment and management of the Portfolio.

D. Monitoring of Objectives and Results

1. All objectives and policies are in effect until modified by the Board of Trustees. The Board of Trustees will review these at least annually for their continued appropriateness. The Board may revise these guidelines at any time.
2. If, at any time, an investment manager believes that any policy guideline inhibits his/her investment performance, it is his/her responsibility to communicate clearly this view to the Chairman of the Development and Investment Committee.
3. Each investment manager will report to the Development and Investment Committee the following information quarterly: total return (on a time-weighted basis) net of all commissions and fees, additions and withdrawals from the account, current holdings at cost and market value, and purchases and sales for the quarter. Regular communication concerning investment strategy and outlook is expected. Additionally, managers are required to inform the Board of Trustees of any change in firm ownership, organizational structure, professional personnel, account structure (e.g., number, asset size, account minimum), or fundamental investment philosophy.

E. Authority to Act

In any case under these Guidelines where authority to act is placed in the Board of Trustees, if the Board's Development and Investment Committee determines that action must be taken before the next regularly scheduled meeting of the Board, that Committee shall have the authority to act for the Board, provided that the Committee shall report such action at the next meeting of the Board at which time the Board shall approve or modify such action taken.

In any case under these Guidelines where authority to act is placed in the Board of Trustees, any investment manager may take directions from the Chairman of the Development and Investment Committee or his or her designee, acting on behalf of the Committee.