

## **Investment Policies of the Experiment Station Section**

### **Purpose**

The purpose of this Investment Policy is to provide a clear statement of the Experiment Station Section (ESS) investment objective, to define the responsibilities of the ESS leadership group (ESCOP, Experiment Station Committee on Organization and Policy) and the ESS Finance Committee involved in managing ESS investments, and to identify or provide target asset allocation, permissible investments, and diversification requirements. The ESS Finance Committee will be a subcommittee of the ESS Budget and Legislative Committee (BLC). In doing so, the policy:

- clarifies the delegation of duties and responsibilities concerning the management of ESS funds;
- identifies the criteria against which the investment performance of ESS funds will be measured;
- communicates the objectives to ESS, investment managers, brokers, donors, and funding sources that may have involvement;
- confirms policies and procedures relative to the expenditure of ESS funds; and,
- serves as a review document to guide the ongoing oversight of the management of ESS investments.

### **Investment Objective**

The overall investment objective of ESS is to maximize the return on invested assets, while minimizing risk and expenses. This is accomplished through prudent investing and planning, as well as through the maintenance of a diversified portfolio. Investment of these ESS funds will create financial resources for future programmatic opportunities.

### **Delegation of Responsibilities**

ESCOP has a direct oversight role regarding all decisions that impact ESS funds. ESCOP has delegated supervisory responsibility for the management of ESS funds to the Finance Committee per ESS Rules of Operation. The Finance Committee membership and purpose is:

#### Membership:

The Past ESCOP Chair serves as chair of the Finance Committee. Committee members include the BLC Chair, Incoming ESCOP Chair and one at-large member of the BLC, supported by the BLC Executive Vice-chair (regional Executive Director).

#### Purpose:

The Finance Committee, with the BLC Executive Vice-chair, shall draft and present a budget to the BLC, then ESCOP, for review, vote, and approval prior to submitting it to ESS for adoption; act in an advisory capacity and give counsel regarding financial matters affecting the organization; conduct an orientation for ESCOP on income and expenses; and, review the investment plan annually. Specific responsibilities of the various bodies and individuals responsible for the management of ESS funds are set forth below:

### **Responsibilities of ESCOP**

ESCOP shall ensure that its fiduciary responsibilities concerning the proper management of ESS funds are fulfilled through appropriate investment structure, internal, and external management and portfolio performance consistent with all policies and procedures. Based on

the advice and recommendations of the Finance Committee, ESCOP shall:

- select, appoint, and remove members of the Committee;
- approve investment policies and objectives that reflect the long-term investment-risk orientation of ESS funds; and,
- meet yearly with members of the Finance Committee to relay ESCOP expectations for ESS funds based on upcoming needs for special projects and operating expenses in order to determine investment allocations for the coming year.

#### **Responsibilities of the Finance Committee**

Members of the Finance Committee are not held accountable for less than desirable outcomes, rather for adherence to procedural prudence, or the process by which decisions are made in respect to endowment assets. In consideration of the foregoing, the Finance Committee is responsible for the development, recommendation, implementation, and maintenance of all policies relative to ESS funds and shall:

- develop and/or propose policy recommendations to ESCOP with regard to the management of all ESS funds;
- recommend short-term and long-term investment policies and objectives for ESS funds, including the study and selection of asset classes, determining asset allocation ranges and setting performance objectives;
- determine that ESS funds are prudently and effectively managed with the assistance of management (i.e., the BLC Executive Vice-chair and Chief Financial Officer of APLU) and any necessary investment consultants and/or other outside professionals, if any;
- monitor and evaluate the performance of all those responsible for the management ESS funds;
- recommend the retention and/or dismissal of investment consultants and/or other outside professionals;
- receive and review reports from management, investment consultants, and/or other outside professionals, if any;
- periodically meet with management, investment consultants and/or other outside professionals' management, investment consultants and/or other outside professionals;
- report (as desired) at ESCOP, ESCOP Executive Committee and ESS regular meetings; and,
- convene regularly to evaluate whether this policy, investment activities, risk management controls, and processes continue to be consistent with meeting the goals and objectives set for the management of ESS funds.

#### **Responsibilities of Management**

Management (i.e., the BLC Executive Vice-chair and Chief Financial Officer of APLU) shall be responsible for the day-to-day administration and implementation of policies established by ESCOP and/or the Finance Committee concerning the management of ESS funds. Management shall also be the primary liaison between any investment consultants and/or other outside professionals that may be retained to assist in the management of such funds. Specifically, management shall:

- oversee the day-to-day operational investment activities of all ESS funds subject to policies established by ESS, ESCOP and/or the Finance Committee;

- contract with any necessary outside service providers, such as: investment consultants, investment managers, banks, and/or trust companies and/or any other necessary outside professionals;
- ensure that the service providers adhere to the terms and conditions of their contracts; have no material conflicts of interests with the interests of ESS; and, performance monitoring systems are sufficient to provide the Finance Committee with timely, accurate and useful information;
- regularly meet with any outside service providers to evaluate and assess compliance with investment guidelines, performance, outlook, and investment strategies; monitor asset allocation and rebalance assets, as directed by the Finance Committee and in accordance with approved asset allocation policies, among asset classes and investment styles; and, tend to all other matters deemed to be consistent with due diligence and prudent management of ESS funds; and,
- comply with official accounting and auditing guidelines regarding due diligence and ongoing monitoring of investments, especially alternative investments. Prepare and issue periodic status reports to ESS, ESCOP and the Finance Committee.

#### **Responsibilities of Investment Advisors**

Any and all investment advisors, managers and/or custodians of ESS funds are expected to manage the ESS portfolio consistent with this Investment Policy Statement and in accordance with State and Federal law and the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Investment advisors shall:

- design, recommend and implement, under the direction of the Finance Committee, an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement; and,
- advise about the selection of and the allocation of asset categories; identify specific assets and mutual funds within each asset category; monitor performance of all selected assets; recommend changes to any of the above; periodically review the suitability of the investments for ESS; and, prepare and present appropriate reports.

#### **General Investment Considerations**

- The Association of Public and Land-grant Universities (APLU), of which the ESS is a constituent member, is a tax-exempt organization as described in section 501(c)(3) of the Internal Revenue Code. This tax-exempt status should be taken into consideration when making ESS investments.
- A copy of this ESS Investment Policy Statement shall be provided to all investment managers.
- All individuals responsible for managing and investing ESS institutional funds must do so in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).
- All individuals responsible for managing and investing ESS funds shall immediately inform ESS of any actual or potential conflict of interest – business, professional, personal, or other interest, including, but not limited to, the representation of other clients – that would conflict in any manner or degree with the performance or obligations under this Investment Policy Statement.

- ESS is expected to operate in perpetuity; therefore, a 10-year investment horizon shall be employed. Interim fluctuations should be viewed with appropriate perspective.
- A cash account shall be maintained with a zero to very low risk tolerance to keep cash available for any anticipated expenses.
- Transactions shall be executed at reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker.
- Permitted investments include: money market funds, marketable securities including equities, and fixed income securities.

Money Market Funds:

A quality money market fund will be utilized for the liquidity needs of the portfolio whose objective is to seek as high a current income as is consistent with liquidity and stability of principal. The fund will invest in "money market" instruments with remaining maturates of one year or less, that have been rated by at least one nationally recognized rating agency in the highest category for short-term debt securities. If non-rated, the securities must be of comparable quality.

Equities:

The equity component of the portfolio will consist of high-quality equity securities traded on the New York, NASDAQ or American Stock exchanges. Securities must be screened for above average financial characteristics such as price-to-earnings, return-on-equity, debt-to-capital ratios, etc.

*Prohibited* equity investments include: initial public offerings, restricted securities, private placements, derivatives, options, futures and margined transactions. Exceptions to the prohibited investment policy may be made only when assets are invested in a Mutual Fund(s) that periodically utilizes prohibited strategies to mitigate risk and enhance return.

Fixed Income:

Bond investments will consist solely of taxable, fixed income securities that have an investment-grade rating (BBB or higher by Standard & Poor's and Baa or higher by Moody's) that possess a liquid secondary market. If the average credit quality rating disagrees among the two rating agencies, then use the lower of the two as a guideline.

The following transactions are *prohibited*: Purchase of non-negotiable securities, derivatives, high risk or junk bonds, private placements, precious metals, commodities, short sales, any margin transactions, straddles, warrants, options, life insurance contracts, leverage or letter stock. Exceptions to the prohibited investment policy may be made only when assets are invested in a Mutual Fund(s) that periodically utilizes prohibited strategies to mitigate risk and enhance return.

Asset Allocation	Range
Cash and Equivalents	0-10%
Fixed Income	60-70%
Equities: Domestic Large Cap	30-40%
Equities: Domestic Small/Mid Cap	
Equities: International	

**Performance Measurements Standards**

The benchmarks to be used in evaluating the performance of the two main asset classes will be:

- Equities: S&P 500 Index - Goal: exceed the average annual return of the index over a full market cycle (3-5 years); and,
- Fixed Income: Government/Corporate Index - Goal: exceed the average annual return of the index over a full market cycle (3-5 years).

It will be the responsibility of the Finance Committee to regularly review the performance of the investment account and investment policy guidelines, and report to ESCOP at least annually with updates and recommendations as needed.

**Expenditure Considerations**

ESCOP and the Finance Committee are responsible for the establishment of a balanced reserve fund spending policy to: (a) ensure that over the medium-to-long term, sufficient investment return shall be retained to preserve and grow its economic value as a first priority; and, (b) to provide funds for the annual operating budget in an amount which is not subject to large fluctuations from year-to-year to the extent possible.

**Expenditure of ESS Funds**

All decisions relative to the expenditure of ESS funds must assess the uses, benefits, purposes and duration for which the ESS fund was established, and, if relevant, consider the factors:

- the duration and preservation of the ESS fund;
- purposes of ESS and the fund;
- general economic conditions;
- possible effect of inflation or deflation;
- expected total return from income and appreciation of investments;
- other organizational resources;
- all applicable investment policies; and,
- where appropriate, alternatives to spending from the ESS fund and the possible effects of those alternatives.

For each decision to appropriate ESS funds for expenditure, an appropriate contemporaneous record should be kept and maintained describing the nature and extent of the consideration that the appropriate body gave to each of the stipulated factors. This document has been reviewed and approved by ESCOP and is subject to annual review by ESCOP to ensure it continues to reflect the goals, objectives and risk profile of ESS.



Moses Kairo, ESS Chair

August 3, 2020

Date



Doug L. Steele, APLU VP FANR

8/20/2020

Date