

**COLORADO SCHOOL OF MINES FOUNDATION, INC.  
LONG-TERM INVESTMENT POOL**

**INVESTMENT POLICY STATEMENT**

(Adopted by the Executive Committee 4/2/09)

**STATEMENT OF PURPOSE**

The purpose of this statement is to establish an understanding regarding the investment philosophy and policy guidelines for managing the Colorado School of Mines Foundation's Long-term Investment Pool (LTIP).

It is intended that these philosophy and policy guidelines provide meaningful guidance in the management of the Foundation's investments but not be overly restrictive given changing economic, business and investment market conditions. It is also intended that these guidelines conform to the standards for managing and investing charitable funds contained in Colorado's Uniform Prudent Management of Institutional Funds Act.

**INVESTMENT PHILOSOPHY**

The Foundation's commitments and therefore its assets are long-term in nature. The funds shall be managed in a diversified manner with the goals of providing a steady stream of funding for the Colorado School of Mines and maintaining the real (inflation-adjusted) purchasing power of the investment assets over time.

The funds shall be invested to provide adequate diversification of risk and reasonable opportunity for long-term growth. The Foundation believes it is desirable to allow considerable flexibility in attaining these goals. This philosophy encourages a proper balance between preservation of capital and enhancement of the assets' purchasing power.

The funds shall be professionally managed by established investment managers. The funds shall be supervised by an Investment Committee that shall engage a consultant(s) and investment managers. Engagement or disengagement of the consultant(s) and investment managers shall require the approval or ratification of the Executive Committee of the Board.

**INVESTMENT GUIDELINES**

Within the scope of the general investment philosophy, a variety of investments can be made provided they are recognized as generally acceptable for long-term endowments. Permissible areas would include: marketable equities (including both domestic and international), fixed income, private equity investments, and alternative investments including hedged funds and absolute return managers. In making decisions, it must be recognized that there is a responsibility to the Foundation to preserve and protect the assets in both absolute and inflation-adjusted terms.

**Investment Goals and Objectives**

The investment goal is to provide a real total return that preserves the purchasing power of the Foundation's assets, while generating an income stream to support the Foundation's activities in support of the Colorado School of Mines. The Foundation's real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility.

In pursuit of this investment goal, the LTIP's investment objectives shall be defined as:

- *Absolute*: Measured in real (net of inflation) rate of return terms and shall have the longest time horizon for measurement;
- *Relative*: Measured as time-weighted rates of return versus capital market indices and peers;

The *absolute* objective of the LTIP shall be to seek an average total annual return of (6%) plus CPI. This objective shall be measured over an annualized ten year time period; the intent of this objective is to preserve, over time, the principal value of assets as measured in real, inflation adjusted terms.

The *relative* objective of the LTIP shall be to seek competitive investment performance versus appropriate capital market measures, such as securities indices. This objective shall be measured primarily by comparing investment results over a moving annualized three-year, five-year and ten-year period to the appropriate indices and peers.

### Rationale

The LTIP annual payout, established by the Executive Committee of the Board, of (6%) is comprised of (4.5%) endowment spending payout and (1.5%) administration fee, which supports a variety of foundation financial and development activities.

The payout was established based on the assumption that over the long-term (10 years or more) the overall portfolio total return would be in the (8-9%) annual range. These returns are within long-term historic returns. Assuming a payout of (6%) and inflation of 2-3% would require a return of (8-9%) to maintain the purchasing power of the investment pool, it is recognized that annual returns may be well above or below the long-term goal.

The payout and overall investment policy are reviewed annually based on the long-term investment environment and the funding needs of the Colorado School of Mines.

### **Risk Tolerance**

The LTIP has an unlimited life; therefore the investment philosophy will have a long-term orientation while having a disciplined approach in reacting to short-term market stress and volatility.

The investment philosophy will be biased toward the growth of investment capital while balancing the desire to protect or preserve invested capital. The LTIP shall be invested over a broad investment spectrum in order to create a mix of potential returns that, in the aggregate, will achieve the overall portfolio objectives.

Sufficient liquidity shall be maintained within its investment portfolio to support annual spending budgets. Low to moderate levels of illiquid assets within the overall portfolio are acceptable in order to enhance the returns necessary to achieve the LTIP's investment goals and objectives.

## **Investment Constraints**

- Time Horizon – Although the LTIP has been established in perpetuity, the Investment Committee has established a 20-year period of time as a frame of reference for long-term strategic investment considerations.
- Liquidity – Liquidity must be sufficient to meet spending levels and operational fees charged. The following limits are required by the Executive Committee of the Board and will be reviewed by the Investment Committee on a rolling 12-month basis:
  - The maximum amount that may be invested in long-term illiquid investments shall be an amount calculated from the endowment pool annually:
    - 75% of the corpus of UPMIFA managed endowment funds
    - 50% of corpus of “Contract” managed endowment funds
    - and
  - One-year liquidity floor amount of \$40 million
- Diversification – The LTIP should be properly diversified to ensure that adverse or unexpected developments arising in one security or asset class will not have a significant detrimental impact on the entire portfolio. Assets will be diversified by asset class, geography, security characteristics, etc.
- Individual Manager Size – Managers with limited liquidity and transparency, and use leverage in their investment strategy, will require a review and approval by the Investment Committee when their allocation is 5% of the total portfolio.

## **Investment Strategies**

Various asset classes have different return and risk characteristics; therefore making asset allocation decisions a primary consideration in formulating an investment strategy. The requirement to fund a mandated level of annual spending as well as preserving the purchasing power of the investment assets dictates an overall bias toward equity investments because of their inherent growth opportunities.

A diversified portfolio will be developed using different asset classes in an attempt to generate equity-like returns for the overall portfolio. A diversified investment portfolio will provide the best opportunity to meet its investment objectives over the long-term. The Investment Committee will identify and allocate a portion of investment capital to assets that may not be fairly valued or entire asset classes that display atypical or uncorrelated relationships to other asset classes. The goal of the LTIP's diversified portfolio will be to create opportunities for enhanced returns within the identified asset classes while decreasing the potential volatility and risk for the overall portfolio.

While certain potentially high return asset investments may pose substantial individual risk, they still may be prudently held because of their ability to enhance returns for the overall portfolio, while maintaining a reasonable and acceptable overall portfolio risk profile.

## **Asset Allocation**

The Executive Committee of the Board desires an asset allocation that is appropriately suited for both the prevailing market conditions and long-term outlook. Asset Allocations, as recommended by the Investment Committee, are to be approved by the Executive Committee.

### **Overall Strategic Asset Allocation:**

A broad range of asset allocations have been established in order to provide flexibility in pursuing the long-term investment goals.

The range of allocation shall be:

	<u>Minimum</u>	<u>Maximum</u>
Equity Related	50%	80%
Fixed Income*	15	30
Alternative Investments**	0	30
Cash and Cash Equivalents	0	20

\*shall include bond and bond-related investments

\*\*the timing of expected cash distributions shall be considered in maintaining the allocation range.

Policy Index - Consistent with a target asset allocation that is approximately 80% "equity like" and 20% "fixed income like" in terms of expected return and volatility, the Policy Index is a blend of 60%-Russell 3000 Index, 20%-ACWI exUS, 15%-Barclays Aggregate Bond Index, and 5%-T-bill index +5%.

### **Tactical Asset Allocation:**

Within the overall asset allocation, the Investment Committee, with the advice of the investment consultant, may use or define the LTIP asset allocations in more detail as part of a comprehensive effort to fully evaluate the diversification and risk characteristics of the investment portfolio. The tactical model asset allocation defines the investment not by the legal structure of an investment but rather by the nature of the investment asset and the role it plays in the total portfolio. The tactical asset allocation categories are as follows:

<u>Asset Category</u>	<u>Benchmark target/ranges</u>
Domestic Equity Related	Russell 3000
International Equity Related	ACWI ex US
Inflation Hedging/Real Assets	CPI + 5%
Absolute Return	T-Bill index + 5%
Private Equity/Opportunistic	Russell 3000 + 2%
Fixed Income/Cash	Barclays Aggregate Bond Index

The allocation among asset categories shall be determined by the Investment Committee with recommendations from the consultant and shall be approved by the Executive Committee of the Board.

## **Rebalancing**

Rebalancing ensures that actual asset allocations remain within predetermined strategic asset allocations. Changes to asset allocation targets are typically motivated by market movements, contributions of new assets or cash withdrawals, new risk/return estimates, redeployment of investments to new managers, changing organizational preferences such as spending levels or overall risk tolerance, and consideration of new asset classes.

The LTIP's targeted strategic allocation mix is formally reviewed at least every year, or as changing circumstances dictate, to determine whether modifications are necessary. Actual asset allocations relative to targeted allocations are also monitored on a quarterly basis in connection with required meetings of the Committee. Formal asset allocation reviews are required and performed by the Committee if actual allocations fall outside the range limitations. Rebalancing may occur within the policy ranges and, to the extent possible, may be accomplished with liquidity and cash flow management into and out of the investment portfolio.

## **Laws and Regulations**

The LTIP will be managed in a way that is sensitive to spending policies determined by the Executive Committee of the Board as well as any spending requirement imposed by the IRS. It is intended that the Foundation will comply with applicable federal and state laws including the Colorado Uniform Prudent Investor Act (as amended from time to time) and the Colorado Uniform Prudent Management of Institutional Funds Act (as amended from time to time).

Except as otherwise specifically provided in a specific gift instrument, in managing and investing the Foundation's funds, the following factors, if relevant, will be considered:

- General economic conditions.
- The possible effect of inflation or deflation.
- The expected tax consequences, if any, of investment decisions or strategies.
- The role that each investment or course of action plays within the overall investment portfolio of the Foundation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Foundation.
- The needs of the Foundation and the fund to make distributions and to preserve capital.
- An asset's special relationship or special value, if any, to the charitable purposes of the Foundation.

## **OPERATING POLICY AND PROCEDURES**

The Executive Committee of the Board will:

- Annually, review the Endowment Spending Policy.
- Annually, review the Investment Policy.
- Annually, review the Asset Allocation.
- Review recommended changes by the Investment Committee in asset allocation, investment managers, or investment consultant.
- Annually, review with the Investment Committee, the relationship with and performance of the Investment Consultant.

Quarterly, the Investment Committee (and Investment Consultant) will:

- Direct investments of the long-term investment pool.
- Review the asset allocation target ranges and recommend rebalancing, if appropriate.
- Examine the outlook for the security markets and economy in general.
- Review overall fund performance, as well as that of each investment manager.
- Meet with individual managers, if appropriate and needed.
- Consider manager terminations, as needed.
- Engage new manager(s), when necessary.
- Evaluate ongoing investment opportunities.

Annually, the Investment Committee will:

- Review the Investment Policy Statement to determine if modifications are necessary. The policy is subject to approval by the Executive Committee of the Board.
- Monitor investment managers' fees.
- Review the relationship with and performance of the Investment Consultant.
- Conduct a Committee self-evaluation.