Marywood University

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Investment Policies, Objectives and Procedures

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<u>Investment Policy Statement for the Management of the Endowment Assets of Marywood University</u>

I. Statement of Purpose

This statement is set forth to govern the management of Marywood University's (the "University") Endowment and Quasi-Endowment portfolios (the "portfolios"), as well as the Operating Reserve Fund. This is an area of particular responsibility for the Board of Trustees, and more specifically its Financial Affairs Committee (the Committee), as the Committee is called upon to exercise appropriate oversight with respect to the prudent investment of the University's assets in accordance with the long-term objectives of the portfolios. In doing so, the Committee's responsibilities are:

1. to establish broad guidelines for the investment of the portfolios' assets;
2. to determine asset allocation targets and ranges that achieve the portfolios' objectives;
3. to select and monitor the performance of investment managers; and
4. to take corrective action when it becomes apparent that objectives and guidelines are not being met, which includes the ability to terminate and hire new managers.

The investment guidelines, asset allocation allowable ranges and the selection of investment managers are subject to approval by the Board of Trustees. The portfolios' <u>Investment Policies, Objectives and Procedures</u> ("The Policy") have been established to provide a general framework for the management and investment of the portfolios' assets. The Policy sets forth specific investment objectives (see Investment Objectives & Guidelines, Section VII) to help ensure that the portfolios assets are financially managed in the best interests of the Endowment, at an economical cost.

II. Investment Philosophy

The overall philosophy concerning the investment of the portfolios' assets is to preserve principal, both in absolute terms and real terms (adjusted for inflation), while seeking to maximize returns within acceptable levels of risk. The University has decided to pursue a "total return" strategy for the investment of the portfolios. Investments will be made such that interest and dividend income will be earned as well as anticipated capital gains.

Because the portfolios have anticipated future spending needs, it is important for the assets to generate not only sufficient current returns to meet these needs, but sufficient future returns as well. This can only be accomplished by achieving asset growth equal to, or in excess of, the portfolios' planned real (i.e. after inflation) spending rate (see Spending Policy, section VI). As part of this philosophy, the portfolios will be diversified among multiple asset classes, consisting of equities (stocks), fixed income (bonds), and money market securities. In doing this, it is acknowledged that history has demonstrated that equity and fixed income returns can at times be somewhat volatile, and this has been taken into consideration when making total allocation decisions. However, though there may be interim periods of negative returns, it is expected that the manager(s) will make every attempt to preserve the principal of the assets under management.

The Operating Reserve Fund was established to invest Marywood's excess liquidity in a manner expected to earn a higher return than cash and cash equivalents. This portfolio is intended to be conservative in nature. The Vice President for Finance & Administration will work with the Committee and the investment consultant to ensure this pool of assets is optimized based on Marywood’s operating environment.

III. Overview

1. The Endowment and Quasi-Endowment assets have the primary objective to provide an annual earnings cashflow to meet the spending policy of the University. Though the earnings of the portfolios are needed to meet short-term obligations, the portfolios themselves should be long-term in nature, as use of true endowment principal is restricted.

2. The portfolios’ assets will be allocated to a diversified portfolio of equity investments, fixed income securities, and cash equivalents. Though the overall fund will be long-term in nature, a limited amount of liquidity should be maintained to meet near-term needs. (see Investment Guidelines)

3. The University has decided to utilize one or more professional* asset managers for the management of the investment assets. These assets are to be managed in a manner that would comply with the "prudent investor" rule concerning fiduciary oversight of assets. Though the use of professional asset managers will not eliminate the oversight responsibility of the Board and the Committee, a co-fiduciary relationship will be established.

   **(Qualified as a bank with trust powers or qualified in terms of federal registration with the SEC, experience with similar responsibilities, and a proven performance history.)*

4. When an investment manager does not take custody of the assets, the assets of the fund will be held in custody at an independent bank. The custodian will be responsible for the safe keeping of assets, settling

transactions, collecting investment income, and providing timely and accurate accounting reports to the University.

5. The University may at times utilize an independent investment consultant to evaluate the investment structure and the general asset allocation of the portfolio. The Committee also intends to periodically review performance of the manager(s), and to determine whether the manager(s) are adhering to the constraints of this policy. In addition to monitoring performance, the Committee will periodically review the investment policy of the funds, ensuring that the investment structure remains viable based on the University's needs and current economic trends.

6. In addition to preserving the value of entrusted funds, and maximizing performance, investment decisions must be consistent with the mission and strategic direction of the University. This includes the social responsibilities listed below.

GUIDELINES FOR SOCIALLY RESPONSIBLE INVESTMENTS

The Trustees of Marywood University exercise great care in the administration of the money entrusted to them and act with keen fiscal and social responsibility in the selection of investment vehicles.

The investment manager(s) will be directed to observe the following guidelines:

Investment is encouraged in corporations that:

1) Improve the quality of life through fair labor practices;

2) Work to provide goods and services that benefit the health and welfare of consumers;

3) Protect the biosphere and support the continued supply of natural resources.

Investment should be avoided in companies that violate the principles of social justice, and therefore the company or corporation:

1) Must not be involved in the production of weapons of mass destruction (biological, chemical or nuclear). Weapons' contracts of any company should not exceed 15% of gross sales;

2) Must not be involved in overseas operations that exploit the people of the host country;

3) Must not (by comparison with industry peers) have a consistent long-term history of repeated environmental violations and fines;

4) Must not be primarily identified with products whose function is to destroy life (abortifacients).

The University recognizes that investment in mutual or common funds are acceptable and when so invested, such investments may limit the practical application of our social direction. In light of this, use of mutual funds will be limited whenever possible.

IV. Funds Management

Though the Committee will oversee the management of the portfolios, the Vice President for Finance & Administration will communicate with the investment manager(s) on regular and routine matters and will communicate with the Committee as developments dictate throughout the year. The Committee will review the Portfolios performance and activity in regard to compliance with the stated guidelines and objectives at least annually.

The management of each fund shall follow the "prudent investor" rule. This rule reads in part:

> All that can be required of a trustee is that he/she shall conduct himself/herself faithfully and exercise sound discretion. He/She is to observe how men and women of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to permanent disposition of their funds.

This rule may be observed through the use of what is referred to as the "total return concept". In essence, a prudent person will seek high total returns from investments by means of both cash income and capital gains.

The Committee will have the responsibility of pursuing the total return concept by selecting an outside manager(s), periodically reviewing the performance of the manager(s), and implementing changes when deemed necessary.

The basis by which the Committee evaluates the performance of the manager(s) will be the manager's success in achieving the Portfolios investment objectives, as well as evaluations of the managers' performance in comparison with their peers. Though the manager(s) will be monitored and reviewed on a quarterly basis, the long-term nature of the funds dictate that the manager(s) should be evaluated on their contribution to achieving the Portfolios objectives over a three-year time horizon. If, however, the manager(s) should deviate from the Portfolios guidelines, and/or significantly under-perform versus similar asset managers and/or their corresponding market index, an interim evaluation may be appropriate. Additionally, if a management firm changes ownership, management personnel, investment philosophy, investment style, or any factor that could materially affect the firm's performance, an interim evaluation may be necessary. The Vice President for Finance & Administration and/or the Committee will meet with each management firm at least once annually. The Vice President for Finance & Administration and/or the Committee may delegate this responsibility to the Investment Consultant. More frequent meetings may be necessary if the Vice President for Finance & Administration, the Committee or

Investment Consultant becomes concerned with a manager's performance or operations.

This policy recognizes that it may be necessary or justified to allow the management of the investments to exceed the parameters of this policy. In this situation, it is only the Committee that may approve such divergence from the policy.

V. Asset Allocation

The Committee may decide to utilize a multi-manager investment management system. If this is the case, each manager or management firm will be handling a portion of the portfolios that is consistent with its area of expertise and proven strengths.

Assets will be diversified throughout a multitude of asset classes, i.e. equity, fixed income, and cash equivalents. The Committee has established basic asset allocation parameters, within which the portfolio will be structured.

The asset allocation parameters were developed by considering historical risk and return for the specific asset classes. The "target range" is one that, historically, has produced investment results that are consistent with the portfolios' goals and objectives. Through portfolio diversification, the portfolios are seeking to earn a competitive rate of return while assuming a reasonable level of risk.

Asset Class	Current Target	Allowable Range
Large Cap Domestic Equity	27.00%	24.0% - 34.0%
Mid Cap Domestic Equity	10.00%	7.5% - 12.5%
Small Cap Domestic Equity	5.00%	2.5% - 7.5%
International Equity	18.00%	13.0% - 23.0%
Core Fixed Income	17.50%	12.5% - 27.5%
Core Plus Fixed Income	12.50%	8.5% - 22.5%
Real Return	10.00%	0.0% - 12.5%
Cash Equivalents	0.00%	0.0% - 10.0%
Total	100.00%	

Operating Reserve Fund

Asset Class	Current Target	Allowable Range
Domestic Equity	21.00%	16.0% - 26.0%
International Equity	9.00%	4.0% - 14.0%
Core Plus Fixed Income	20.00%	15.0% - 30.0%
Short Duration Fixed Income	50.00%	45.0% - 60.0%
Total	100.00%	

The portfolio's asset allocation should remain within the allowable ranges, while rebalancing back to the targets should occur at least annually. The investment manager and/or consultant are required to report to the Vice President of Finance & Administration and/or Committee if investment allocations violate the above noted parameters. It is planned that the asset allocation will be reviewed at a minimum annually with the investment manager(s).

VI. Endowment Spending Policy

The University intends to spend a percentage of the average market value of the Endowment and Quasi Endowment Portfolios each year. The Board of Trustees approves the percentage and the number of years. They normally range from 3% to 5% and 3 years to 5 years. This amount will be calculated for the current year based on the previous fiscal years. If the investment return for the period does not match this spending rate, the Committee will conduct an investment review and develop a set of recommendations to increase the Endowment Portfolios.

VII. Investment Objectives & Guidelines

The primary objective is the preservation of principal, both in nominal and real terms. Secondly, at a minimum, the investment performance of the portfolios' assets should achieve the portfolios' planned spending rate (after inflation). Additionally, each specific asset class will have its own benchmark index and risk parameters. (Please see Addendum A)

VIII. Management Fees and Related Costs

The costs of managing the portfolios' assets should be competitive within the marketplace of similar investment portfolios. All fees, be they management related or custody related, should be negotiated and monitored to insure that the Fund is not overpaying for services. Transaction fees, brokerage commissions, and security mark-ups should be within the norms for institutional accounts of similar trading volume. In regard to equity transactions, unless there is reason to make an exception, all trading commissions should not exceed the rate of $.06 per share. Though the allocation of trades will be left up to the Portfolios manager(s), it should be understood that best execution, at the lowest reasonable cost, is expected. Further, all reports to the Board or its Committees will contain an explicit recording of all fees paid in relation to these investments. Investment consultant(s) that may be hired by the University may not accept soft dollar payments.

IX. Review

This investment policy should be reviewed at a minimum annually. If any material changes occur within the portfolio or regarding the needs for the funds, a review of the investment policy should be conducted immediately.

X. Investment Management & Oversight Responsibilities/Procedures

Custodian

1) Custodian provides safekeeping and custody services.
2) Custodian settles all securities transactions conducted by the investment manager(s) and/or the client.
3) Custodian provides monthly statements for market valuations as well as transactions.
4) Custodian provides on-line access to account information.
5) The Custodian custody accounts offer a daily money market sweep into money market funds.

Investment Manager

1) Investment managers provide discretionary investment management services to Marywood University.
2) The investment managers will be provided an investment policy statement for each account. It is expected that their management will fall within the parameters established by the policy.
3) Specific benchmarks and objectives have been established for each manager. Ongoing, a manager’s evaluation will focus on meeting and exceeding the established benchmarks and objectives.
4) Investment managers will also provide ongoing research on the investment markets.

Independent Investment Consultant

1) An Independent Investment Consultant (“Consultant”) may be retained to provide investment management consulting services.
2) On a quarterly basis the Consultant will provide performance review and manager evaluation reports.

3) The reports will include the following items: investment performance vs. benchmark indices, manager performance vs. manager peer groups, client's investment performance vs. manager's composite return, portfolio compliance with investment policy, risk / liquidity analysis, portfolio efficiency.
4) The Consultant reviews all portfolio activity.
5) The Consultant will also assist with overall asset allocation and investment policy decisions.
6) The Consultant will assist with manager / custodian selections, when necessary.
7) The Consultant will include a statement with each report to the Board or its Committees that it has accepted no soft dollar payments.

Procedures:

1) Marywood University representatives control / facilitate all deposits and withdrawals directly with Custodian and Investment Managers.
2) Investment Managers have authority to conduct securities transactions on a discretionary basis for their respective portfolios.
3) All transactions are settled via the custodian investment accounts.
4) Marywood University, Custodian and the Consultant receive confirmations of all transactions.
5) Marywood University, investment managers and the Consultant receive custodian investment account monthly statements.
6) Investment managers reconcile their internal accounting system with the custodian investment account statements on a quarterly basis.
7) The Consultant reviews all activity and transactions on a monthly basis.
8) The Consultant's review reports are produced on a calendar quarter basis.
9) Each Consultant report includes an "Areas of Concern" section for issues that warrant attention.

* Service providers will make themselves available for all required meetings.

Addendum A

Investment Performance Objectives & Guidelines

The following requirements and guidelines have been established to ensure that assets are managed in a manner consistent with the investment objectives described previously. These guidelines will be reviewed at least annually. Performance and risk benchmarks have been established for each of the asset classes currently being utilized in the portfolio.

Passively Managed Strategies

The role of the passively managed strategy is to replicate the risk/return characteristics of the comparable benchmark index (net of fees).

Passive Strategy Guidelines

- Over rolling three-year periods, the total return (net of fees) of this portfolio segment should match the comparative index (net of fees).
- Risk, as measured by standard deviation, will be similar to the comparative index.
- Reasonable diversification should be maintained and portfolio characteristics should be similar to the comparative index.
- Investment in equity related derivatives for speculative purposes is prohibited.

Addendum A (continued)

Large Capitalization Core Domestic Equity

This portfolio invests in stocks of large capitalization companies (capitalization in excess of $10 billion) that can provide consistent growth of capital and a modest level of income with a level of risk similar to the broad US equity market.

Large Capitalization Domestic Equity Guidelines

- On average, over three-year rolling periods, the total return of this portfolio segment should match the Standard & Poor's 500 Index (net of fees).
- On average, over three-year rolling periods, it is expected that the manager's portfolio performance remain ahead of the median manager's within a similar-style manager universe.
- Risk, as measured by standard deviation, should be similar to the benchmark index (S&P 500 Index).
- Reasonable diversification should be maintained, with no more than 5% or 2x a company's index weight (whichever is greater) of equity assets allocated to any single company stock investment. No single industry group allocation should exceed 20% of the portfolio's market value.
- Investments in any equity related derivatives for speculative purposes are prohibited.

Addendum A (continued)

Mid Capitalization Equity

The investment objective is to provide long-term growth of assets through exposure to mid cap companies (capitalizations in the $5-10 billion range) that can provide above-market growth of capital with a level of risk proportionate to an above-market return.

Mid Cap Equity Guidelines

- On average, over three-year rolling periods, the total return of this portfolio segment should exceed the Russell Mid Cap Index (net of fees).
- On average, over three-year rolling periods, it is expected that the manager’s portfolio performance remain ahead of the median manager’s within a similar-style manager universe.
- Reasonable diversification should be maintained, with no more than 7% of equity assets allocated to any single company stock investment and no more than 25% of equity assets allocation to a single industry group.
- Investments in any equity related derivatives for speculative purposes are prohibited.

Addendum A (continued)

Small Capitalization Equity

The investment objective is to achieve long-term capital appreciation primarily through the common stock of small capitalization (below $ 2 billion market cap) companies as this market sector is defined at the time of investment. These companies are perceived to have growth potential and are priced at reasonable levels.

Small Cap Equity Guidelines

- On average, over three-year rolling periods, the total return of this portfolio segment should exceed both the primary benchmark - Russell 2000 Index (net of fees) and the secondary benchmark – Russell 2000 Value Index (net of fees).
- On average, over three-year rolling periods, it is expected that the manager's portfolio performance remain ahead of the median manager's within a similar-style manager universe.
- Reasonable diversification should be maintained, with no more than 7% of equity assets allocated to any single company stock investment and no more than 25% of equity assets allocation to a single industry group.
- Investments in any equity related derivatives for speculative purposes are prohibited.

Addendum A (continued)

International Equity

The role of the international equity manager is to achieve long-term capital appreciation by investing in a broadly diversified international portfolio. The fund will invest in well-established companies that have above-average market appreciation potential based in the countries that comprise the Morgan Stanley Capital International EAFE index and/or ACWI ex US index. The fund will primarily invest in Europe, Australia, the Far East and Canada. Additionally, up to 30% of total assets may be invested in less developed, non-U.S. markets, including emerging economies in the Far East, Africa, Europe and Central and South America. The intent of this style is to provide the overall portfolio with diversification from U.S. equity market, while providing exposure to the growth of foreign markets.

International Equity Guidelines

- On average, over three-year rolling periods, the total return of this portfolio segment should exceed the Morgan Stanley Capital International EAFE Index and/or ACWI ex US Index (net of fees), as appropriate.
- On average, over three-year rolling periods it is expected that portfolio performance will remain ahead of the median manager within the universe of similar style managers.
- Risk, as measured by standard deviation, will be similar to or less than the benchmark Index (MSCI EAFE Index and/or MSCI ACWI ex US Index, as appropriate).
- The overall portfolio should be of good quality and resemble, somewhat, that of the MSCI EAFE Index and/or MSCI ACWI ex US Index, as appropriate. The large majority of the investments should be made in companies with above average capitalization (based on their markets) and be domiciled in countries with well-established economies and market exchanges.
- Reasonable diversification should be maintained with no more than 5% of international equity assets allocated to any one security, and no more than 30% allocated to any one country.
- Use of currency hedging is permitted, but should be limited to strategies which are defensive in nature.

Addendum A (continued)

Core Plus Fixed Income

The portfolio invests in a well-diversified portfolio of fixed income securities that will achieve an above average return from both income and price appreciation. The portfolio will use a broadly diversified portfolio of fixed income securities.

Core Plus Fixed Income Guidelines

- On average, over three-year rolling periods, the total return of this portfolio should exceed the Barclay Capital Aggregate Index (net of fees).
- On average, over three-year rolling periods, it is expected that portfolio performance remain ahead of the median manager within the universe of similar style managers.
- The duration of the portfolio is intended to be intermediate term in nature and should remain within 25% of the benchmark index's duration (Barclays Capital Aggregate Index).
- It is recognized that risk, as measured by standard deviation, may at times deviate from the benchmark Index (Barclays Capital Aggregate Index).
- Securities other than those issued by the U.S. government, including agencies, are limited to 3% of the Fund assets per issuer.
- Instruments issued by domestic corporations, including corporate notes and floating rate notes, should be rated "Baa/BBB" or better at time of purchase by Moody's Investor Service or Standard and Poor's. Based on the discretion of the manager, up to 30% of the portfolio may be allocated to Non-US dollar investment grade fixed income instruments. Up to a maximum of 20% of the portfolio may be invested in "high yield" securities with a quality rating less than investment grade. Up to 10% of the portfolio may be allocated to emerging market fixed income instruments. At no time, shall the combination of below investment-grade fixed income and emerging markets debt exceed 20%.
- Futures, options or other derivatives are permitted only for hedging purposes.

Addendum A (continued)

Short Duration Fixed Income

This strategy consists of a well-diversified portfolio of short maturity fixed income securities that will strive to generate a return from both income and price appreciation. Over-time this portfolio should generate excess returns above money market securities with a minimal amount of additional risk.

Short Duration Fixed Income Guidelines

- On average, over three-year rolling periods, the total return of this portfolio should exceed the Barclay Capital 1-Yr. Treasury (net of fees).
- On average, over three-year rolling periods, it is expected that portfolio performance remain ahead of the median manager within the universe of similar style managers.
- The duration of the portfolio is intended to be short term in nature, with its duration generally below 2.5 years.
- Risk, as measured by standard deviation, will be similar to or less than the benchmark index.
- All securities held should be "investment grade", with the average quality of the total portfolio being at least 'A'.
- Securities other than those issued by the U.S. government, including agencies, are limited to 5% of the Fund assets per issuer.

Real Return

This strategy intends to invest in multiple asset classes, on an opportunistic basis, in order to generate a real rate of return of 500 basis points or 5%. Tactical asset allocation will be utilized to continually position the portfolio in attractively valued asset classes.

Real Return Objectives

The strategy seeks maximum real return (total return less inflation), investing for both current income and capital appreciation (price movements), consistent with preservation of capital and prudent investment management.

- On average, over rolling three-year periods, the total return of this strategy should exceed (net of fees) its comparative benchmark, the Barclay Capital Global Real: U.S. TIPS 1-10 Year Index (which is an unmanaged market index comprised of all U.S. inflation-linked indexed securities with maturities of 1 to 10 years).
- It is expected that this strategy will exceed (net of fees) its secondary benchmark (created by adding 5% to the annual percentage change in the Consumer Price Index – specifically the CPI for all Urban Consumers).

Real Return Allocation Guidelines

This strategy will utilize proprietary analytical models to determine the desired asset allocation of the fund. The strategy will adhere to the following guidelines:

- The strategy may invest in alternative markets, including Treasury Inflation-Protected Securities (TIPS), commodities, real estate and international fixed income, as well as traditional asset classes – stocks, bonds, and cash.
- The strategy will actively manage its asset mix to concentrate on the asset classes that are priced to provide attractive returns.

Addendum A (continued)

Pacer Investment Fund

The Fund seeks above average returns by investing in securities that are determined, through detailed analysis by the student Portfolio Management Teams, to be undervalued by the market, or that otherwise supply above average, risk-adjusted returns.

Pacer Fund Structure

The Fund's assets are allocated to four sub-portfolios for investment which include Large Cap, Mid Cap, Small Cap and Fixed Income.

- At the discretion of the students the weight of each sub-portfolio as a proportion of the core portfolio may change from time to time but shall not exceed 40%. Fixed Income is not expected to exceed 20% of the core portfolio.

- Portfolio Management Teams, with the input of the teaching faculty and investment counselors will be responsible for security selection and evaluating and monitoring the risk of the portfolio.

Fund Restrictions

The Fund will not:

- Invest in securities that are inconsistent with the existing socially responsible investment policies of the university;
- Invest more than 10% of the Fund's assets in the securities of companies that (with their predecessors) have a record of less than three years of continuous operations;
- Invest in any securities where representative prices for the security cannot be acquired on a daily basis;
- Invest more than 10% of its assets in securities of any one issuer, except for temporary storage of cash equivalents, U.S. government securities, and publicly traded index funds;
- Use margin borrowing to lever the investment portfolio;
- Hold short positions in any investments; or
- Invest in futures contracts, forward contracts, or option contracts for the purpose of levering the investment portfolio.