

Investment Policy

for

East Tennessee State University Foundation, Inc. (the "Foundation")

Adopted June 25, 2019

Executive Summary

- The Long Term Objective of the Portfolio is ensure long-term financial security to the Foundation and to provide a source of funding for the Foundation's activities, programs, and operating expenses.
- The Target Return Formula is: $\text{Target Return} = \text{Inflation} + \text{Spend Rate} + \text{Expenses}$
- The Executive Committee, ultimately, is responsible for making the decisions that affect the Foundation. The Executive Committee receives information and recommendations from the Investment Committee.
- The Investment Committee is charged with recommending investment policy, and with superintending and managing the investment of the Foundation and the property of the Foundation in which its assets are invested.
- The Investment Advisor is charged with monitoring the Foundation's performance and recommending investment strategies in order to obtain the Long-Term Objective of the Foundation. The Investment Advisor utilizes staff and contracts with other Investment Managers for management of the investments.
- The Investment Managers are required to invest assets in accordance with the guidelines and restrictions dictated by the Prospectus under which they were hired.
- The Investment Advisor serves as Custodian and is charged with providing timely detailed investment reports on a monthly basis, a fiscal year summary report, and normal custodial functions such as security safekeeping, collection of income, etc.
- The Policy Asset Allocation decision is, arguably, the most important decision made by the Investment Committee with regard to the Foundation. The Investment Committee is responsible for determining the Policy Asset Allocation and asset class selection.
- The Executive Committee is responsible for setting this Spending Rate annually on the recommendation of the Investment Committee. Consistent with the Foundation's long-term investment objectives, the Foundation's spending policy is to distribute a specified percentage rate of the average quarterly market values for the three previous calendar years. The rate will be based on the Reserve Account balance at June 30 as a percentage of the average market value.

Introduction

The purpose of this Investment Policy (this "Policy") is to provide guidelines for the prudent management of the Foundation's investments (the "Portfolio") and is intended to assist the Executive Committee of the Foundation's Board of Directors (the "Executive Committee") in supervising and monitoring the Portfolio. A principal goal of this Policy is to ensure the creation and implementation of a sound long-term investment strategy. The Policy defines the Foundation's investment objectives and the responsibilities of and standards applicable to those involved in the investment and management of the Portfolio.

This Policy is not intended to constitute a legally binding agreement between Foundation and Investment Advisor or Investment Manager(s). Any agreement with Investment Advisor or Investment Manager(s) with respect to the Policy would be pursuant to a separate, written agreement with such party. It is recognized that from time to time the Executive Committee's attitudes, expectations and objectives may change. Therefore, this Policy is intended to be used as a guideline rather than a rigid statement of policy from which there can be no deviation. This Policy is intended to be a summary of an investment philosophy and the procedures that provide guidance for the Foundation, Executive Committee of the Board, Investment Committee, Investment Advisor, and Investment Manager(s).

The Foundation's Mission and Portfolio

The Foundation was established on November 4, 1970 as a non-profit corporation under the laws of the State of Tennessee and is governed by the Executive Committee. The Foundation has been recognized by the Internal Revenue Service as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") and is classified as a public charity.

The Foundation's mission is to receive and hold by gift, bequest, devise, grant or purchase any real or personal property, and to invest and reinvest and to use and to dispose of the same for the purpose of supplementing the funds otherwise made available, for the designing, planning, development and operation of both the educational and physical facilities of the State University located at Johnson City, Tennessee; for the purpose of providing, maintaining and improving the various libraries of said University, its several colleges, schools and departments; for the purpose of providing said University, its several colleges, schools and departments with funds with which to acquire or purchase real or personal property and to pay for services and constructions; for the purpose of providing students attending said University with funds to pursue their collegiate training; and for the purpose of providing funds to carry on any proper activities of said University.

The Portfolio consists of:

- (a) Funds that are intended to be used for annual operating and Board designated purposes (the "Unrestricted Fund"). The Unrestricted Fund is largely funded by the annual distribution of investment income generated by the Unrestricted and Restricted funds. Undesignated contributions are also a source of funding for the Unrestricted Fund.
- (b) Funds restricted for program expenses (the "Restricted Fund"). These funds consist of Endowment Operating Funds generated from endowment fund investment income, and from donations received for restricted non-endowment purposes, including gifts for capital campaigns. The Restricted Funds do not receive a distribution of investment income. The

investment income attributable to the Restricted Funds is allocated to fund the Unrestricted Fund

- (c) Funds for endowments which support the Foundation's future operations, serve as a resource during economic downturns and provide an additional source of support for the Foundation (the "Endowment Funds"). The Endowment Funds are defined under the Uniform Prudent Management of Institutional Funds Act. These funds consist of Quasi-Endowment funds individually approved by the Board of Directors, Quasi-Endowment funds established by a donor with the intent of growing into an Endowment Fund within 5 years, Endowment Funds for which the initial corpus has been met, and the Reserve Account associated with each Endowment Fund for which the corpus has been met. The Reserve Accounts serve to allow a distribution to the Endowment Operating Funds held in the restricted funds in years when realized income is not sufficient to meet the guaranteed distribution. All allocable investment income generated in the first year the initial corpus has been met will be placed in the Reserve Account for the endowment and no expenditures are allowed. Future additions to the Reserve Accounts are generated from earnings in excess of any guaranteed distribution to the endowment operating restricted funds. For any Reserve Accounts in excess of 20% of the permanent fund balance (total fund balance less reserves) at June 30, the excess funds will be added to the endowment's Board approved reserves for appreciation purposes.

All three fund types above are comingled for investment purposes in a pool (the "Investment Pool"). The Office of Foundation Accounting will maintain records to adequately account for the activity and balance of the underlying funds in the Portfolio, and reports regarding the composition of the Portfolio will be made on a periodic basis to the Investment Committee in accordance with this Policy. The Portfolio is designed to ensure long-term financial security to the Foundation and to provide a source of funding for the Foundation's activities, programs, and operating expenses.

Responsibilities

The Executive Committee of the Board 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 Executive Committee has delegated to the Investment Committee these responsibilities.

The Investment Committee, the Office of Foundation Accounting, the Foundation's investment advisor (the "Investment Advisor"), and the investment managers (the "Investment Managers") are charged with implementing this Policy. Their respective responsibilities are set forth below.

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 Executive Committee.
- Setting the asset allocation targets and ranges for the Portfolio, and modifying them from time to time.
- Implementing this Policy, with input from the Office of Foundation Accounting and the Investment Advisor.

- Overseeing the Portfolio's assets and reporting on the status of the Portfolio to the Executive Committee at least two times a year.
- Engaging the Investment Advisor 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 Advisor and monitoring its performance.
- Monitoring the fees and other expenses associated with the management and administration of Portfolio.

Investment Advisor

The Investment Advisor is responsible for:

- Monitoring the investment environment and regularly communicating with the Investment Committee concerning issues that may impact the Portfolio.
- 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. In selecting each Investment Manager, the Investment Advisor will take reasonable measures to assess the independence of the Investment Manager, including any conflicts of interest that the Investment Manager may have. (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 on a fiscal-year basis 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 Office of Foundation Accounting as requested.
- Providing necessary information to and cooperating with the Investment Committee, Office of Foundation Accounting, and the Foundation's external auditors.
- Providing feedback regarding changes to this Policy when requested by the Executive Committee or the Investment Committee and proposing corresponding amendments to the relevant account documents, if necessary.

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 Foundation's assets under management.
- Suggesting performance benchmarks (described below) to facilitate the Investment Committee's and Investment Advisor's evaluation of the Investment Manager's performance.
- To the extent that the Investment Manager is authorized and directed by the Investment Advisor, voting all proxies for the Foundation's securities.
- Taking reasonable steps to promptly communicate significant changes in the Investment Manager's firm to the Investment Advisor, 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 Advisor 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.

Custodian

Each Custodian is responsible for:

- Providing timely reports detailing investment holdings and account transactions monthly to the Investment Committee.
- Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities etc.,

Office of Foundation Accounting

The Foundation Chief Financial Officer and the Director of Foundation Accounting are 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.

Investment Objectives

The Foundation's investment objectives are to safeguard and preserve the real purchasing power of the Portfolio while earning investment returns that are commensurate with the Foundation's risk tolerance and sufficient to meet its operational requirements including guaranteed distributions. The specific investment objectives for the Unrestricted, Restricted and Endowment Funds are set forth below.

All funds are invested in the Investment Pool. Investment returns attributable to the Restricted Fund assets are used to support the Unrestricted Fund and serve as the primary source of income for the Unrestricted Fund. All funds shall be invested with the objective of preserving the long-term real purchasing power of the Endowment Fund's assets while seeking an appropriate level of investment return. More specifically, the Foundation's investment objectives and constraints for the Endowment Fund include the following:

- Preservation of Purchasing Power. The Foundation 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.
- Long-Term Growth. The Foundation seeks to achieve growth in its assets in excess of inflation by emphasizing long-term investment fundamentals in structuring its investments.
- Time Horizon. The Foundation 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 Foundation's objectives, but the Foundation aims to attain its objectives over a series of five-year periods. The Foundation will monitor shorter-term investment results and trends while focusing on long-term results.
- Risk Tolerance. The Foundation 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 Foundation 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 Foundation'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.
- Target Level of Risk. The Foundation targets a level of risk equivalent to a benchmark portfolio consisting of 60% MSCI All Country World Index and 40% Bloomberg Barclay's Capital U.S. Aggregate Bond Index.
- Liquidity Requirements. The Foundation seeks to maintain adequate liquidity to meet its obligations. The Investment Committee will inform the Investment Advisor (as defined below) of any anticipated need for liquidity as such need becomes known, including the guaranteed distribution. The Investment Advisor will detail to the Investment Committee any liquidity constraints present in the portfolio but will presume no liquidity needs other than those provided by this Policy or the Investment Committee.

Restrictions on Investments

- All purchases of securities must be for cash and there will be no leveraged purchasing or margin transactions.
- No short sales.
- All direct investments of securities must have an investment rating of no less than BBB unless prior approval from the Investment Committee is given.
- With the exception of Federal securities the Foundation should have no investments with an issuer concentration exceeding 5%.
- These above restrictions will not be applied to the underlying holdings of any investments in commingled vehicles such as mutual funds [or LLC structures]. Although restrictions do not apply for these type of investments, the Investment Advisor is required to provide

details of the investments and ratings to the Office of Foundation Accounting for fiscal year-end reporting purposes.

- Any investment that has the potential for generating unrelated business taxable income (UBTI) shall require prior approval of the Investment Committee.

Guidelines on Prudent Investing

Standard of Care

Each person responsible for managing and investing the Foundation's assets will do so in good faith with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and will consider both the purposes of the Foundation and the goals of the Portfolio.

A person with special skills or expertise, or selected in reliance upon his or her representation that he or she has special skills or expertise, will use those skills or that expertise in managing and investing the Foundation's Portfolio.

In managing the Portfolio, the Foundation will incur only those costs that are appropriate and reasonable in relation to the Portfolio, the purposes of the Foundation, and the skills available to the Foundation. The Foundation will use reasonable efforts to verify facts relevant to the management and investment of the Portfolio.

Prudence Considerations

In managing and investing the Portfolio, 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 Portfolio;
- the expected total return from income and the appreciation of investments;
- other resources of the Foundation;
- the needs of the Foundation and of particular funds in the Portfolio to make distributions and to preserve capital;
- an asset's special relationship or special value, if any, to the purpose of the Foundation;
- the requirement of diversification;
- liquidity considerations;
- the impact of management or administration costs; and
- risk management.

Management and investment decisions about an individual asset will be made not in isolation but rather in the context of the Portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Portfolio and the Foundation.

The Foundation will diversify the assets in the Portfolio unless it prudently determines that, because of special circumstances, the Portfolio is better served without such diversification.

Delegation Standards

The Investment Committee will delegate to the Investment Advisor the management and investment of the Portfolio to the extent that it can prudently delegate under the circumstances, and will act in accordance with the standard of care described above in selecting, continuing, or terminating the Investment Advisor, establishing the scope and terms of the delegation, and monitoring the Investment Advisor's performance and compliance with the scope and terms of the delegation.

The Investment Committee will take reasonable measures to assess the independence of the Investment Advisor, both before and after the Investment Advisor is engaged. Investment Advisors will be selected based on competence, experience, past performance, and proposed compensation, without regard to business or personal relationships. Any actual or potential conflicts of interest possessed by a member of the Executive Committee of the Board or the Investment Committee must be disclosed and resolved in accordance with the Foundation's conflict of interest policy.

Spending Policy

The Foundation's spending policy is consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, the Foundation's guaranteed distribution should be less than the Foundation's total inflation-adjusted return on investments. Consistent with the Foundation's long-term investment objectives, the Foundation's spending policy is to distribute a specified percentage rate of the average quarterly market values for the three previous calendar years. The rate will be based on the Reserve Account balance at June 30 as a percent of the average market value. The Executive Committee is responsible for setting this Spending Rate annually based upon the recommendation of the Investment Committee.

Asset Allocation

The Investment Committee will establish in writing the Foundation's asset allocation, including minimum and maximum allocations for each asset class in the Portfolio, and will modify it from time to time, with recommendations from the Investment Advisor. The target asset class ranges in effect at the present time is attached to this Policy as Exhibit A. The target asset class allocations in effect at the present time is attached to this Policy as Exhibit B.

Investment Advisors should maintain the allocation within the following ranges relative to target: +/- 15% on Investment Grade Fixed Income and Private Equity and a range of +/- 10% on any Non-Investment Grade Fixed Income, Public Equities and Hedge Funds. These ranges are meant to provide the portfolio sufficient room for tactical investments, but still be tight enough so that the portfolio's volatility doesn't deviate drastically from the target.

The Investment Committee will seek to achieve a diversified Portfolio, unless it prudently determines that, because of special circumstances, the Portfolio or a particular fund or funds within the Portfolio are better served without diversification.

Rebalancing and Cash Flows

The Investment Committee and/or the Investment Advisor, as the case may be, should consider rebalancing at least once a quarter or more frequently, if necessary (e.g., large market moves). Rebalancing of the Portfolio may be delayed if, for example, prevailing market conditions are such that rebalancing may be detrimental to the Foundation's long-term goals for the Portfolio.

The Investment Committee will identify the destination of all cash flows, including additional contributions to the Foundation's assets, consistent with this Policy. The Foundation's net cash flows may be used to implement the rebalancing activities in order to minimize transaction costs.

Performance Benchmarks

Performance benchmarks are used by the Investment Committee to properly measure and evaluate the success of the Investment Advisor and the Investment Managers. The performance benchmarks selected by the Investment Committee (with recommendations from the Investment Advisor) should be representative of the Foundation's long-term return objectives and risk tolerance and be calculated over the same time period as the returns on the Portfolio with which the performance benchmark is being compared. These performance benchmarks are intended as targets only and are no guarantee or assurance of the performance of any investment or of the Portfolio.

Reporting and Oversight

The Investment Committee will meet quarterly to review the reports of the Investment Advisor and the Investment Managers, and to evaluate the performance of the Portfolio and adherence by the Investment Advisor and the Investment Managers to this Policy. The performance of the Portfolio will be measured relative to appropriate and agreed upon performance benchmarks (described above). The Investment Committee of the Board will also make quarterly reports to the Executive Committee regarding the Foundation's investment performance.

Conflicts of Interest

All persons responsible for investment decisions or who are involved in the management of the Foundation or who are consulting to, or providing any advice whatsoever to the Investment Committee, shall disclose in writing at the beginning of any discussion or consideration by the Investment Committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Investment Committee may require such persons to remove themselves from the decision-making process.

Any members of the Investment Committee responsible for investment decisions or who are involved in the management of the Foundation shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Investment Committee. The intent of this provision is to eliminate conflicts of interest between the Investment Committee membership and the Foundation. Failure to disclose any material benefit shall be grounds for immediate removal from the Investment Committee. This provision shall not preclude the payment of ordinary fees and expenses to the Foundation's custodian(s), Investment Managers or Consultant in the course of their services on behalf of the Foundation.

Revisions

The Investment Committee will review this Policy periodically and recommend revisions to the Executive Committee for approval as needed. In conducting such review, the Investment Committee may consult with the Investment Advisor regarding the performance of the Foundation's investments, the current asset allocation, the Foundation's overall investment strategy, general economic and market conditions, and any other relevant information that may bear on this Policy.

This Investment Policy Statement must be reviewed by the Executive Committee at least once a year and confirmed as appropriate or amended as necessary at that time.

The foregoing Statement of Investment Policy was approved at a meeting of the Executive Committee on this 25th day of June 2019.

Signatures:



Chairman of the Investment Committee



Foundation President



Foundation Chief Financial Officer



Foundation Chairman

Exhibit A
Asset Class Ranges
Investment Pool

<u>Asset Class</u>		<u>Minimum</u>		<u>Maximum</u>
Investment Grade Fixed Income		10.00%		30.00%
Other Fixed Income		2.50%		15.00%
US Equity		25.00%		55.00%
Non-US Equity		10.00%		30.00%
Hedge Fund		0.00%		12.50%
Tactical Tilts		0.00%		10.00%

Exhibit B
Target Asset Allocation
Investment Pool

Investment Grade Fixed Income		25.50%
	US Dollar Denominated Debt	19.50%
	US Treasury Inflation Protected Securities	6.00%
Other Fixed Income		9.00%
	Non - Investment Grade Debt	9.00%
US Equity		35.50%
	Large Cap	23.30%
	Mid and Small Cap	5.00%
	Dynamic US Equity	5.70%
	US Real Estate Securities (Public)	1.50%
Non US Equity		20.00%
	Developed Non US Equity	15.50%
	Emerging Markets Equity	3.00%
	Non-US Real Estate Securities (Public)	1.50%
Hedge Funds		6.00%
	Multi-Strategy	6.00%
Asset Allocation Investments		4.00%
	Tactical Allocations	4.00%