STOCKTON UNIVERSITY

POLICY

Investment Policy
Policy Administrator: Vice President for Administration & Finance and Chief Financial Officer Authority: N.J.S.A. 18A: 3B-6.g; 18A:64-6 Effective Date: July 7, 2005, February 21, 2007, September 10, 2008, February 16, 2011, July 6, 2011, May 8, 2013; July 6, 2016; May 1, 2024 Index Cross-References: Policy File Number: VI-56 Approved By: Board of Trustees

Section 1: Purpose

To establish investment policies and objectives that govern the investment of Stockton University (the "University") funds not required for operations. The Board of Trustees (the "Board") established the Investment Committee (the "Committee") to ensure the prudent investment of the University's financial assets in accordance with the long-term objectives of the University. The University's Investment Policy ("the Policy") has been established to support the University's long-term objectives and to provide a general framework for the management and evaluation of the University's financial assets. The Policy shall be reviewed by the Committee and the Board on a periodic basis.

Section 2: Conflicts of Interest

It is the policy of the Board of Trustees to avoid conflicts of interest in the performance of their duties and responsibilities, including the selection of Investment Advisors or Managers. Each member of the Board shall disclose the nature of any relationship with any Investment Advisor on the digital Personal Business and Relationship Disclosure form located in the trustee's digital ethics file and recuse themselves from decisions where they have a conflict of interest. The Personal Business and Relationship Disclosure form is completed by all trustees and reviewed by the Stockton's Ethics Liaison Officer or Alternate Ethics Liaison Officer and the New Jersey State Ethics Commission. No independent Investment Advisor retained by the University shall be a party to any transaction or have a financial or other interest in any Investment Manager providing services to the University or any fund in which the University has an investment.

Section 3: Roles and Responsibilities

Board of Trustees

The Board is the ultimate fiduciary for administration of the University's financial assets and is responsible for establishing the Investment Policy and objectives for the University's long-term investment portfolio. The Board has delegated certain of its responsibilities to the Committee and receives periodic reports and recommendations for asset management from the Committee. Additionally, it is the intent of the Board to comply with both N.J.S.A. 3B:20-11.1 *et seq*. known as the "Prudent Investor Act" and N.J.S.A.15:18-25 *et seq.* known as the "Uniform Prudent Management of Institutional Funds Act".

Investment Committee

Oversight for the University's financial assets and portfolio ("Investment Fund") shall be provided by the Investment Committee, as established by the Board's Bylaws. The Committee's responsibilities include:

- Conduct a periodic review of the Investment Policy and provide recommended changes to the Board.
- Ensure the University's Investment Fund is managed within the stated objectives and policies established by the Board.
- Establish a target asset allocation range reflecting the risk tolerance of the Investment Fund.
- In consultation with the President and the President's designees, select or remove Investment Advisors and Investment Managers to achieve the University's objectives.
- Establish overall investment objectives and benchmarks, time horizon, risk tolerance and policies for the Investment Fund.
- Monitor the performance of the Investment Fund and all Investment Managers using specific and appropriate benchmarks on a regular basis. Monitor the Investment Advisors' compliance with the Investment Policy and benchmarks. Communicate any changes in the Investment Policy to the Investment Advisors.
- Ensure allocation of assets among asset classes, investment manager structure, and investment objectives and guidelines remain appropriate.
- Ensure investment management fees are reasonable.
- Report summary performance results and activity relative to guidelines and objectives of the long-term investment portfolio at regular meetings of the Board of Trustees.
- Select one or more Investment Advisors through a competitive process with input from the Vice President of Administration & Finance and Chief Financial Officer.
- Meet with Investment Advisors on a quarterly basis.

Staff

Though the Committee will oversee the management of the University's Investment Fund, the Vice President of Administration & Finance and Chief Financial Officer, with approval of the President, shall monitor the Investment Advisors' compliance with the University's Investment Policy and shall communicate any changes in the Policy to the Investment Advisors. The Vice President of Administration & Finance and Chief Financial Officer shall be responsible for communicating with the Investment Advisors on regular and routine matters and will communicate with the Committee and Board as developments dictate throughout the year. Additional staff duties include the measurement, evaluation, and reporting on the Investment Advisors and overall portfolio performance and risk characteristics, as well as compliance with investment guidelines, process, and organization.

Investment Advisors

Investment Advisors are responsible for implementing the Investment Policy approved by the University and developing investment processes and procedures for asset allocation, risk management, investment manager selection and termination, monitoring and evaluation, and the identification of management strategies that will improve the investment efficiency of the Investment Fund. Investment Advisors may delegate to external Investment Managers responsibility for managing all or a portion of the financial assets in the Investment Fund. External Investment Managers will assume the roles and responsibilities as defined below and will act as a fiduciary with respect to the financial assets they manage on behalf of the University. Investment Managers will accept financial assets and invest in compliance with all applicable laws and regulations, the Investment Manager's individual investment management agreements, and as applicable, the stated investment guidelines in this Policy.

Investment Advisors are delegated portfolio discretion, and their responsibilities include:

- Behave as a fiduciary to the Stockton University Investment Fund.
- Pursuant to the prudent expert standards, as defined in the Prudent Investors Act, invest University financial assets with the care, skill, prudence, and diligence that an expert investment manager, familiar with such matters and acting in a like capacity, would use in the investment and management of such assets.
- Allocate assets and adhere to the investment objectives, policies and guidelines prescribed by this Investment Policy and in accordance with applicable laws.
- Advise the Committee on all investment-related issues with regard to the Investment Fund.
- Select appropriate underlying Investment Managers and individual investments.
- Establish a portfolio that will allow a designated percentage of the assets to be available as cash within a designated period. The designation of percentages and time periods will be established by the Committee in consultation with the President and the President's designees.
- Report investment results to the Committee on a monthly basis.
- Meet with the Committee on a quarterly basis.
- Maintain compliance with the tenets of this Investment Policy.
- Assist in the development of the Investment Policy, asset allocation ranges, and benchmarks.

Investment Managers

Investment managers shall be appointed and monitored by the Investment Advisors, and their responsibilities include:

- Pursuant to the prudent expert standards, as defined in the Prudent Investors Act, invest University financial assets with the care, skill, prudence, and diligence that an expert investment manager, familiar with such matters and acting in a like capacity, would use in the investment and management of such assets.
- Report investment results to the Investment Advisors.

- Adhere to directives from the Investment Advisors or the University to liquidate or transfer assets.

Custodian Bank or Brokerage Firm

For all designated financial assets of the University held at a custodian bank or brokerage firm, the custodian shall:

- Provide safekeeping of securities, collect dividends and interest earned, make disbursements, receive cash flows as directed, and provide annual reporting upon request (e.g., System & Organization Controls (SOC) reporting, audited financial statements, credit rating reports).
- Provide to the University and the Investment Advisors complete and accurate accounting records including each transaction, a listing of all holdings valued in accordance with industry standards, income flow and cash flow by asset class, investment manager, and total assets.
- Monitor and reconcile all trading activity.
- Meet periodically with the University, the Committee and/or their designee to report on the University's investment activity and bank organizational issues.

Section 4: Investment Philosophy and Objectives

Investment Philosophy

The Board has established an investment philosophy that stresses a balance between risk and return. The goal is to generate returns that meet or exceed long-term return objectives.

Investment Objectives

The overall objective for the University is to increase the corpus of the Investment Fund over time in order to generate additional income for University operations.

- The primary benchmark is a conservative 50%/50% stock/bond portfolio.
- The secondary benchmark is to achieve a real (after inflation) return of Consumer Price Index (CPI) plus 2.5% over long periods (approximately 15 years).
- Assume the level of downside risk associated with the stated level of return.
- Maximize total returns consistent with Board objectives.

Section 5: Strategic Asset Allocation Framework

The University recognizes strategic asset allocation is an important factor influencing long-term investment returns as well as the importance of dynamically adjusting the asset allocation when evolving market conditions present opportunities to preserve assets and/or potentially increase returns.

- **Time Horizon**: The University's purpose is to exist in perpetuity and, therefore, a long-term time horizon is appropriate; over the near- to medium-term, however, assets and liabilities will be matched appropriately given the uncertainty in fundraising and enrollment activities, the initiation of bond principal repayments, and the need to generate reliable cash flows in support of University objectives. While the University's time horizon is long, from time-to-time markets present opportunities in which the University will seek to take advantage.

- **Risk**: The focus is on overall portfolio risk, recognizing it will be mitigated by asset allocation. However, the University recognizes market-related risks are unavoidable as the Investment Fund pursues its investment strategies.
    - Net of Fee Returns: Active and passive investment strategies should be combined to maximize net of fee returns relative to risks incurred in seeking to outperform markets.
    - Taxes: The University is a tax-exempt organization. Unrelated business taxable income should be avoided.
    - Liquidity: The Board stresses managing portfolio risks associated with the pursuit of maximizing long-term return, along with the need for short-term liquidity.

- **Asset Allocation:** Limits for each of the Investment Advisors, which govern the Investment Fund's exposure to different asset categories, are established within broad ranges. The guide below outlines the asset class ranges.

  The Investment Fund will contain a portfolio that will be broadly diversified among and within asset classes to limit volatility and the impact of material declines in any single market on total fund results.

  It is also understood that short-term credit may be used to provide for the University's liquidity needs. A credit facility can be employed in order to limit the disruption of the long-term asset allocation.

Asset Allocation by Asset Class

Asset Class	**Target**	**Range**	
		Minimum	Maximum
Equity	**50**	**35**	**65**
Domestic equity	35	25	45
International equity	15	10	20
Fixed Income			
Domestic Fixed Income	**45**	**30**	**60**
Cash and Cash Equivalents	**5**	**5**	**>5**
Non-Traditional Investments	**0**	**0**	**30**
Illiquid Alternatives	0	0	10
Liquid Alternatives	0	0	20

Definitions:

Liquid Investments are considered funds available in 30 days or less.

Illiquid Investments are available in more than 30 days.

1. The Portfolio will rarely be fully invested at the minimum or maximum limits, and some financial assets will be held in cash.
2. Long-term illiquid investments such as partnership investments in private equity, venture capital or real estate are investments where the investment manager draws down capital over time and returns capital at its own choosing.
3. Other diversification strategies such as hedge funds are redeemable by the investor (subject to liquidity and potential gate provisions).

In general, higher risk is associated with higher expected returns. The Board and the Committee regularly examine both the University's risk tolerance and risk preference when reviewing the Investment Policy. Risk tolerance characteristics include the following objectives:

- Maintaining adequate liquidity to meet the University's cash flow requirements.
- Achieving a return sufficient to preserve and enhance the long-term purchasing power of the University.
- Setting aside short-term funds to meet capital expenditure requirements.

Section 6: Rebalancing

Periodic rebalancing of the Investment Fund is necessary to keep allocations from shifting too far from targets. Ranges are set at the portfolio and asset class level. Rebalancing may occur monthly or quarterly.

Section 7: Liquidity Policy

The University Investment Fund shall maintain a Contingency Reserve of cash and cash equivalents (defined as either Federal Deposit Insurance Corporation insured deposits or Government Fixed Income money market mutual funds with overnight liquidity and non-floating net asset values) that can be utilized, under the direction of the President and Board, to meet capital or operating expenditure needs of the University. There is no obligation of the University to utilize these reserves, as the University does not need to meet any distribution requirements to meet tax regulations or to maintain its tax-exempt status. Advisors are expected to maintain at least 5% of their overall portfolio balance in cash and cash equivalents to create this Contingency Reserve.

In the event that the Contingency Reserve or a portion thereof is withdrawn from an Investment Advisors' portfolio, subsequently creating an asset allocation which does not meet the 5% guideline, the Investment Advisors will use best efforts to return their portfolios to compliance within 90 days. This time frame will also apply to any other asset class allocations which may have changed as a result of the withdrawal. The intent of the Contingency Reserve is to mitigate the potential negative implications of a cash withdrawal amidst volatile markets. In addition, a short-term credit facility has been established and can be drawn upon to provide needed liquidity and mitigate the effect of undesirable liquidations. The credit facility can be drawn upon subject to the approval of the President or the President's designees, and must be reported at the next Investment Committee meeting.

The Contingency Reserve of 5% of the overall portfolio balance should be reviewed annually to ensure all liquidity needs of the University can be met.

Section 8: Spending Policy

Authorized withdrawals by the University from the Investment Fund in any fiscal year shall not exceed five percent (5%) of the average annual total market value of the Investment Fund over a trailing five-year period ending June 30th, excluding portfolio additions during the current fiscal year.

The spending limit is established by management and approved by the Board of Trustees as part of the annual budget approval process.

Exceptions to or changes in this spending policy shall be made only upon the recommendation of the President or President's designee and approval by the Board.

Section 9: Benchmarks

Primary Benchmark	Conservative 50% Equity/50% Fixed Income
Secondary Benchmark	Consumer Price Index (CPI) plus 2.5%
Market Benchmark (Total Fund)	35% Russell 3000 Index 15% MSCI All-Country ex-USA Equity Index 45% Bloomberg U.S. Universal Bond Index 5% T-Bills
Underlying Investment Managers	As defined by each particular strategy.

Total Portfolio performance should be reported both gross and net of fees.

Section 10: Risk Management

Definition of Risk

The Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the University's Investment Fund understands how the University defines risk so that the financial assets are managed in a manner consistent with the Investment Fund's objectives and the investment strategy set forth in this Investment Policy. The Committee defines risk as:

1. Probability of not maintaining purchasing power over the investment time horizon.
2. Probability of not meeting the University's liabilities or cash flow requirements.
3. Probability of losing money over the Investment Fund's time horizon.

Risk Tolerance

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of investment risk assumed and the level of return that can be expected. In general, in order to attain higher returns, one must accept higher risk (e.g., volatility of return).

Given this relationship between risk and return, a fundamental step in determining the Investment Policy for the Investment Fund is the determination of the amount of risk the Board and the Committee can tolerate.

A comfort level with investment risk influences how aggressively or conservatively a portfolio can be invested. Like a scale, risk needs to be balanced with the need for returns to achieve the investment goals. The Committee desires long-term investment performance sufficient to meet the objectives in relation to the University's definition of risk. The Committee understands that to achieve such performance the portfolio may experience periods of decline. The Committee further understands that in a severe market, the potential recovery period could be extensive.

The Committee has agreed that they could not tolerate any loss over the investment time horizon of five years. Should the average rate of return of the Investment Fund be worse than 0% over a five-year period, the Committee will conduct a thorough review of the Investment Fund, the Investment Advisors and the Investment Policy and make recommended changes, if any.

Risk Metrics

Clearly defined risk metrics are provided as guidance to the Investment Advisors in managing risk consistent with the University's objectives. The Committee will use the defined benchmarks to evaluate risk based on the following metrics (as such terms are defined in the Appendix hereto).

- Beta
- Volatility
- Tracking error
- Active share (where appropriate)
- Value at risk
- Maximum draw down
- Time period over which risk (and performance) will be measured should be fiscal year-to-date: 1-year, 3-year and 5-year periods.

Section 11: Monitoring and Review Process

Investment Advisor Review

Performance reports for the Investment Fund shall be compiled at least quarterly and communicated to the Committee for review. The investment performance of the total portfolio in the Investment Fund, as well as asset class components, will be measured against commonly accepted performance benchmarks (as listed in this Investment Policy). Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this

Policy. The Committee intends to evaluate the performance of the Investment Fund over a three-to-five-year period, and will consider the following:

1. Investment performance, which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Investment Policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

The Committee also will review regularly with the Investment Advisors the performance, risk metrics, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

The Committee will meet on a quarterly basis with the Investment Advisors to review investment results, expected performance, economic outlook, current strategy, organizational characteristics, and investment approach. The Committee may approve investment objectives and guidelines, contract amendments, and/or other special requests of the Investment Advisors. The Committee will review the Investment Advisors, net of fees, against the market benchmark stated herein.

Investment Policy Review

To assure continued relevance of this Investment Policy, the Committee will review this Policy every three years.

Section 12: Environmental, Social and Governance (ESG) and Socially Responsible Investment (SRI) Considerations

The Board's Investment Policy seeks to maximize long-term investment return for the University's Investment Fund by identifying appropriate allocations of investments balanced by risk and sector consistent with a prudent investment strategy. The Board may consider ESG and SRI factors in hiring Investment Managers and making its investment decisions only to the extent that environmental, social and/or governance factors have a material impact upon the return and risk of an investment.

Section 13: Diversity, Equity, Inclusion, and Social Justice

The Board and the University are committed to diversity, equity, inclusion, and social justice as evidenced by the BOT Resolution on Diversity, Equity, Inclusion, and Social Justice and the University's Statement on Diversity, Equity, and Inclusion. It is the Board's goal to reflect this commitment in all aspects of our operations and partnerships, including the investment process.

Section 14: Unique Circumstances

Proxy Voting Policy

Investment Advisors are delegated the responsibility to vote for mutual fund proxies. Investment Managers are delegated with the responsibility of voting proxies in the best interests of the University's investment portfolio.

Review History:

	Date
Policy Administrator	01/16/2024
Divisional Executive	01/16/2024
General Counsel	01/18/2024
Cabinet	02/01/2024
President	02/07/2024
Board of Trustees	05/01/2024

Appendix: Risk Metric Definitions

Beta measures the amount of systematic risk an individual security or sector has relative to the entire stock market.

Volatility or standard deviation, a proxy for the riskiness of a portfolio, measures the fluctuations in the daily returns.

Tracking error measures the standard deviation of excess returns compared with a common benchmark.

Active share is a measure of the difference between a portfolio's holdings and its benchmark index.

The **Value-at-risk** metric examines the potential of extreme loss in the value of a portfolio over a certain timeframe and for a given level of confidence.

Maximum drawdown measures the greatest peak-to-trough decline that an investment strategy experiences over time.