College of DuPage Foundation

Investment Policy Statement

Adopted and approved December 12, 2012

Table of Contents

Introduction:

The following investment policy statement has been adopted by the College of DuPage Foundation and may be amended as necessary from time to time.

The College of DuPage Foundation (herein referred to as "the Foundation") has adopted this Investment Policy Statement to facilitate a clear understanding of the investment policy, guidelines, and objectives among the Foundation, the Investment Consultant, Investment Managers, and any other interested party to this Investment Policy Statement. This policy will provide a basis against which the performance of the investment portfolio and service providers will be monitored and measured on an ongoing basis. This policy also sets forth the guidelines and restrictions to be followed by the Foundation's Board, Finance Committee, Staff, Investment Consultant, and Investment Managers. This policy is designed to comply with all fiduciary and stewardship responsibilities under UPMIFA, as well as all prudence and due diligence requirements commonly utilized by experienced investment professionals. It is the intention of this Investment Policy Statement to be sufficiently specific to be meaningful, yet flexible enough to be practical.

Purpose:

To invest available investment assets in a prudent manner that weighs the risk of asset class allocation against the targeted returns desired by the Foundation in order to allow the Foundation to support the College of DuPage's Mission "to be a center for excellence in teaching, learning, and cultural experiences by providing accessible, affordable, and comprehensive education."

Section I: Investment Policy

The Foundation employs a total return investment approach whereby a mix of equity, fixed income, and alternative investments are used to maximize long-term performance for a prudent and acceptable level of risk.

Section 1.01: Investment Objectives

The Foundation's investment objectives include:

- Maintaining the purchasing power of current assets and any/all future contributions with respect to inflation and spending by producing positive real rates of return
- Maximizing return within reasonable and prudent levels of risk
- Generating portfolio outperformance relative to a customized policy benchmark or asset allocation benchmark over a full market cycle
- Meeting all anticipated and unanticipated liquidity requirements
- Controlling costs in administering and managing the portfolio

Section 1.02: Time Horizon

The Foundation has a long-term, perpetual, investment time horizon, defined as being greater than 5 years, or at least one full capital market cycle.

Section II: Responsibilities of Parties to the Investment Policy Statement

The Foundation is responsible for all investments and investment related decisions including the authority to hire and fire investment managers. The Foundation has retained an outside firm to act as Investment Consultant vis-à-vis investment of the Foundation's funds. As a practical matter, the Foundation may delegate day-to-day management of the investment portfolio to the Investment Consultant and Managers.

Section 2.01: Responsibilities of the Board:

The Board has the ultimate fiduciary responsibility for the investment portfolios. The Board must ensure that appropriate policies governing the management of the Portfolios are in place and that these policies are being effectively implemented and evaluated. To implement these responsibilities, the Board sets and approves the Investment Policy and delegates responsibility to the Finance Committee for implementation and ongoing monitoring and oversight. At least annually the Board will receive a performance report and review of the Investment Policy from the Committee. The Board may engage a professional Investment Consultant to advise the Board and Committee, share in the fiduciary responsibilities, and assist in the oversight of the Foundation's investments and the selection and evaluation of investment managers and other service providers.

Specific responsibilities of the Board, as it relates to the Foundation's investments, include, but are not limited to:

- Complying with all applicable rulings and regulations of relevant regulatory agencies,
- Complying with all applicable rulings and regulations concerning prudent investing, and specifically with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and
- Developing and communicating the spending policy for each of the Foundation's Portfolios.

Section 2.02: Responsibilities of the Finance Committee

The Finance Committee is responsible for implementing and monitoring the Investment Policy on behalf of the Board. The Committee is responsible for approving investment strategy, hiring and firing of investment managers, monitoring performance of the investment portfolio on a regular basis (at least quarterly), and maintaining sufficient knowledge of the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy.

Additional responsibilities of the Committee, as it relates to the Foundation's investments, include, but are not limited to:

- Expressing the Foundation's investment return needs and risk tolerance through the appropriate asset allocation, in consultation with relevant staff and the Consultant,
- Notifying the Investment Consultant of any change in the Foundation's overall investment objectives and/or risk tolerance
- Notifying the Investment Consultant of any significant event that may affect overall investment objectives and/or risk tolerance
- Notifying the Consultant of any change in liquidity needs or spending policy,
- Ensuring compliance with the Policy,
- Selecting qualified service providers to the Foundation and taking appropriate actions as necessary to replace these service providers (i.e. investment managers and custodians) for failure to perform as expected,
- Reviewing the Policy periodically to ensure that it continues to accurately

reflect the attitudes, expectations, and objectives of the Board.

- Engaging in an open and active dialogue with the Consultant to ensure it is sufficiently aware of any factors that may affect the Foundation relative to its stated investment program

Section 2.03: Responsibilities of the Staff

The primary responsibility of the staff is to act as a liaison between the Finance Committee and service providers, including the investment managers and Consultant. This entails keeping the Finance Committee informed on various investment and other financial issues concerning the portfolio and assets. Staff shall promptly inform the Committee of any significant matters affecting the Foundation including, but not limited to:

- Quarterly portfolio asset statements, in cooperation with the Consultant.
- Quarterly performance reports, in cooperation with the Consultant.
- Substantive changes in investment strategy or portfolio structure.
- Cash flow changes.
- Significant changes in organizational structure, financial condition, or professional staffing.
- Vendor expenses and/or commissions paid, in total, during each quarterly period.

Section 2.04: Responsibilities of the Investment Consultant

The Foundation has retained the Investment Consultant to assist with investment portfolio design, implementation, and oversight. The Investment Consultant is responsible for guiding the Foundation through a disciplined and rigorous investment process. The primary responsibilities of the Investment Consultant are to:

- Obtain relevant information in order to quantify the Foundation's investment objectives and risk tolerance
- Prepare the Investment Policy Statement and update/amend it as requested by the Foundation
- Facilitate the portfolio design (asset allocation) and implementation process
- Conduct Investment Manager searches as needed and provide recommendations as to appropriate Investment Managers for each asset class

- Monitor the asset allocation of the overall portfolio relative to this Investment Policy Statement
- Monitor portfolio performance relative to stated policy objectives, appropriate benchmarks, and a universe of comparable investment returns
- Report portfolio and Manager performance over distinct time periods: latest quarter, year-to-date, latest one-, three-, and five-year periods, when applicable and since the portfolio's inception
- Monitor all investment-related expenses
- Perform ongoing due diligence on the chosen Investment Managers and recommend changes as warranted
- Meet with the Foundation on a regular basis and as requested
- Prepare 'Flash Memos' to inform the Foundation as soon as reasonably possible of any material changes including, but not limited to: an Investment Manager's firm ownership, organizational structure, professional personnel, assets or accounts under management, or fundamental investment philosophy or process

Section 2.05: Responsibilities of Investment Managers

As distinguished from the Investment Consultant, Investment Managers are responsible for managing the direct investment process and making investment decisions (security selection and price decisions). The specific duties and responsibilities of each Investment Manager are to:

- Manage the assets under its supervision in accordance with the guidelines and objectives outlined in the Prospectus, Trust Agreement, Policy Statement, or Contract in force
- Exercise full investment discretion with regard to buying, managing, and selling assets held in the portfolio, subject to any listed restrictions
- Vote promptly all proxies and related actions in a manner consistent with the Foundation's best interests. The Investment Manager shall keep detailed records pertaining to proxy voting and related actions and will comply with all applicable regulatory obligations

- Communicate all significant changes pertaining to the portfolio or the firm itself, including but not limited to: changes in ownership, organizational structure, financial condition, and professional staff
- Use the same care, skill, and prudence under prevailing circumstances that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in similar activities for a like client with like aims in accordance and compliance with all applicable laws, rules, and regulations

<u>Section III: Investment Guidelines and Restrictions</u>

Section 3.01: General Investment Guidelines and Restrictions

The portfolio will be diversified in an effort to achieve stated investment objectives and to provide reasonable assurance that no single asset class or security will have a disproportionate impact on absolute performance. Adequate diversification will ensure that the risk level of the overall portfolio will be maintained within a predetermined tolerance. The predetermined tolerance will be based on the expected risk and return profile of the overall portfolio. Should the overall risk/return profile of the portfolio deviate beyond the predetermined tolerance, the portfolio will be rebalanced back to the target risk/return characteristics.

Section 3.02: Target Asset Allocation Updates and Changes

The Target Asset Allocation is not meant to be a static decision. The Consultant will recommend updates to Strategic Target Asset Allocation as the Consultant periodically updates its capital market assumptions and forecasts which underlie the Target Asset Allocation composition. Additionally, the Strategic Target Asset Allocation may also be changed if the assumptions underlying the Foundation's original asset allocation change, such as a change in spending needs or risk tolerance.

Section 3.03: Approved Investments

No asset class or investment vehicle is expressly prohibited from inclusion in the portfolio unless otherwise noted by the Foundation and detailed in *Section 3.04: Prohibited Investments.*

In order to achieve the greatest possible diversification, portfolio components may include but are not limited to: cash equivalents including Certificates of Deposit (CDs), U.S. Government and agency obligations (domestic bonds), obligations of international governments (foreign bonds), investment grade and high-yield corporate bonds, liquid common stocks trading on U.S. and established foreign stock exchanges, domestic and international real estate investment trusts (REITs), commodities, energy infrastructure master limited partnerships (MLPs), and alternative investments such as hedge funds, private equity and real assets. Investment vehicles permitted in the portfolio may include but are not limited to: mutual funds, exchange-traded funds or notes, commingled trusts, separately managed accounts, and limited partnerships.

Equities shall be allocated globally and among large-capitalization, mid-capitalization and small-capitalization issues. The purpose of equity investments is to provide growth through capital appreciation and dividend reinvestment. It is recognized that equity investments have the potential for greater market volatility and risk of capital loss.

Fixed income investments shall be utilized to provide a stream of fixed cash-flows and to mitigate the volatility inherent in equity market investments. It is recognized that fixed income investments are generally not expected to produce similar returns to equity market investments. Rather, reduced market volatility and lower absolute risk of capital loss offsets the lower expected returns.

Section 3.04: Prohibited Investments

The portfolio is prohibited from investing in the following financial instruments:

- Private placements
- Unregistered or restricted stock
- Margin Trading
- Individual Securities
- Direct Investments in Derivatives

Section IV: Investment Manager Considerations

Section 4.01: Manager Selection Process

For the purpose of evaluating potential Investment Managers, the Investment Consultant will provide the following data to the Foundation:

- Firm Quality and Depth: Investment Managers should have a history of reliability and a sound financial background
- History of Adherence to Investment Objective and/or Approach: Investment Managers should consistently invest according to the objectives and methodology as stated in the portfolio's prospectus
- Performance Measured Against an Appropriate Benchmark: Based on the investment objectives, holdings, investment style, and market capitalization; an appropriate benchmark will be used for relative investment performance evaluation
- Diversification: Investment Managers will employ sufficiently diversified investment strategies
- Performance and Risk: Investment performance should be competitive on a long-term basis and on a risk-adjusted basis within each appropriate asset class as measured by appropriate benchmarks
- Fees: Selected Investment Managers should have reasonable fees competitive with those of similar offerings

Section 4.02: Benchmark/Universe Comparison Information

Each Investment Manager shall be evaluated with respect to multiple benchmarks relative to its investment style and peer group. For some Investment Managers, if no appropriate benchmark exists or existing benchmarks are inadequate, the Investment Consultant may create a customized blended benchmark so as to better represent the Investment Manager's style.

Section 4.03: Transaction Guidelines

All transactions should be entered into on the basis of best price and execution.

Section 4.04: Performance monitoring

All guidelines and objectives shall be in force until modified in writing. If, at any time, an Investment Manager believes that a specific guideline or restriction is impeding his ability to implement a necessary process or meet performance objectives, he should present this fact to the Foundation immediately.

The Foundation will review each Investment Manager's performance on a quarterly basis. The Investment Consultant will meet with Investment Managers on the Foundation's behalf to evaluate investment performance and adherence to stated investment strategies. As requested by the Investment Consultant, Investment Managers will report portfolio holdings and up-to-date performance figures. Additionally, Investment Managers should provide a written update concerning current investment strategy and market outlook at least quarterly. The Investment Consultant will prepare a "Flash Report" and inform the Foundation as soon as reasonably possible of any material change in an Investment Manager's firm ownership, organizational structure, professional personnel, accounts under management, or fundamental investment philosophy.

Section 4.05: Investment Managers – Watch List Status

The Foundation may place a manager on Watch List Status. Watch List Status indicates the Foundation is concerned about some aspect of the Investment Manager's structure and/or strategy implementation and has engaged the Investment Consultant to closely monitor ongoing operations. Events which may trigger Watch List status include but are not limited to:

- Performance: The Investment Manager has underperformed the designated benchmark(s) for a protracted period of time
- Manager Change: The lead portfolio manager changes/departs and/or two or more members of a multi-person management change/depart
- Organization Change: Investment firm acquisition or merger or any other material organizational change

- Style or Strategy Drift: The investment is not maintaining discipline in approach or adhering to its stated strategy
- Legal/Compliance Issues: The investment firm is facing litigation from misconduct

Section 4.06: Termination of Investment Managers

Investment Managers may be terminated at any time on the advice of the client and at the Foundation's discretion. Events that may trigger termination include but are not limited to:

- Illegal or unethical behavior by the Investment Manager
- Failure to follow the guidelines established in this investment policy statement
- Change of key management personnel
- Style drift
- Insufficiency of Investment Manager's infrastructure to keep pace with asset growth
- Any other event or condition deemed by the Foundation to prevent the Investment Manager to effectively carry out his duties

Section 4.07: Investment Manager Objectives/Guidelines

Each Investment Manager must adhere to the investment objectives and guidelines as detailed in the prospectus/agreement in force at the time the Foundation enters into said investment. Cash equivalents may be held in any Investment Manager's portfolio at the Investment Manager's discretion so long as the securities used comply with the guidelines established by the prospectus/agreement currently in force. However, Investment Managers will be evaluated relative to their appropriate benchmark, regardless of the amount of cash and equivalents held during any performance-measuring period.

Section V: Cash Flows and Rebalancing Guidelines

As a general rule, new cash will first be allocated to rebalance the portfolio in accordance with the target asset allocation policy. In addition, the portfolio will be evaluated quarterly for rebalancing using the Investment Consultant's proprietary methodology. In the event the overall risk/return profile of the portfolio becomes materially different from the stated policy objectives, the entire portfolio will be rebalanced back to the long-term asset allocation targets subject to the Foundation's approval. The purpose of rebalancing is to maintain the risk/return relationship, at the overall portfolio level, implied by the stated long-term strategic asset allocation targets. Rebalancing may result in withdrawing assets from investment managers who have performed well in the latest periods or adding assets to managers who have lagged in the most recent periods. This policy will necessitate the purchase and sale of securities which will create transaction costs

Section 5.01: Spending Policy

Through the course of its normal operations, the Foundation may make distributions from the Investment Assets in accordance with the Spending Policy as set forth.

Section VI: Adopted

This Investment Policy Statement is hereby adopted effective the 12 day of December, 2012.

Accepted by:

The member of the College of DuPage Foundation Board of Trustees
In a meeting of the Board held on December 12, 2012

Section VII: Allocation Guidelines

The primary objective of the portfolio is to maximize long-term growth and appreciation of capital (total return) while maintaining a prudent level of risk. Specifically these funds may be invested in diversified equities across U.S. and non-U.S. stocks, (including emerging markets) as well as growth, value, and small, medium, and large capitalizations. Fixed income investments may be diversified among domestic, international, inflation-protected, and high-yield bonds. Other assets such as real estate, commodities, and master-limited-partnerships may be used judiciously to enhance long-term returns and/or reduce volatility in addition to improving the Portfolio's overall diversification. No asset class is automatically excluded from inclusion in the portfolio unless otherwise noted by the Investment Committee and detailed *Section 3.03: Prohibited Investment*. The portfolio time horizon is long-term; generally greater than 5 years extending well beyond at least one capital market cycle.

Asset Class	Allocation Range	Allocation Target
Cash	0%-20%	8%
Fixed Income	15%-45%	35%
Equities	35%-65%	45%
Alternatives	0%-20%	12%

Section VIII: Spending Policy Summary

The College of DuPage Foundation's annual spending policy is based off a five year moving average method and banded to a minimum and maximum spending percentage determined by the Foundation Board on a yearly basis. The endowment balance as of the preceding years June 30th audited balance will be multiplied by a five year investment performance average measured at the end of the Foundation's third fiscal quarter, March 31. The minimum annual spending will be 3% of the endowment balance, and the maximum annual spending will not exceed the five year annual average return plus the maximum 6% band. The Foundation Board can only exceed or spend below the banded limits with a unanimous decision by the Board.

Model:

$X,XXX,XXX	(X)	X.XXX%	(=)	$X,XXX,XXX
June 20XX-20XX Audit Endowment Balance		**5 Year Average of Investment Performa**		**Total to be Banded**

Investment Performance		
Q3-Q3 Prior Prior Prior Prior Prior Year	X.XX%	
Q3-Q3 Prior Prior Prior Prior Year	X.XX%	
Q3-Q3 Prior Prior Prior Year	X.XX%	
Q3-Q3 Prior Prior Year	X.XX%	
Q3-Q3 Prior Year	X.XX%	
	X.XX%	5 Year average

		Lower Band				Upper Band		
Total to be Banded	$X,XXX,XXX	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
		$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

Amount to Be Determined by the Board

All spending is used to support the College of DuPage's Mission "to be a center for excellence in teaching, learning, and cultural experiences by providing accessible, affordable, and comprehensive education."