

**Washington State University Foundation  
Consolidated Endowment Fund**

**Investment Policy Statement  
(includes spending policy)**

**Approved by the Board of Governors of the  
Washington State University Foundation  
March 2, 2010**

**Approved by the Board of Regents of  
Washington State University  
March 26, 2010**

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## 1. Purpose and Background

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The Washington State University Foundation (WSU Foundation) was established as a Washington nonprofit corporation in 1979. It is recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The WSU Foundation's mission is to promote, accept, and maximize private support for programs, initiatives, and properties of Washington State University (University), and prudently manage, invest, and steward the assets entrusted to it by the University and its alumni, friends, and donors. WSU Foundation is a separate and independent entity.

The University has contracted with the WSU Foundation to be the sole entity for promoting, receiving, and managing all private gifts to the University as set forth in the Agreement between Washington State University and the Washington State University Foundation adopted by both parties on March 26, 2010 (Agreement). Pursuant to the Agreement, the WSU Foundation actively solicits alumni and friends of the University on behalf of the University. Some donor's gifts are intended to create endowments. These endowments may be titled in the name of the WSU Foundation or the University depending on the donor's intent.

The University may and has contracted with the WSU Foundation through the Agreement for management of the University's endowed funds.

The Washington State University Foundation Consolidated Endowed Fund Investment Policy Statement (Investment Policy) applies to WSU Foundation assets held as endowments as well as University endowed assets entrusted to the WSU Foundation for management under the Agreement. These endowed assets are managed by the WSU Foundation as part of the Washington State University Foundation Consolidated Endowment Fund (Fund). The Fund is an institutional fund (as that term is defined in RCW 24.55.010(4)). There are two components to the Fund, reflecting the sources of the Fund's corpus: WSU Foundation's assets, consisting of permanent endowments and quasi-endowments (collectively, WSU Foundation endowed assets), and the University's assets consisting of permanent endowments and quasi-endowments (collectively, University endowed assets). The WSU Foundation endowed assets make up approximately eighty percent (80%) of the Fund, and the University endowed assets make up approximately twenty percent (20%) of the Fund.

The WSU Foundation Board of Governors (Governors) are fiduciaries for the WSU Foundation endowed assets. The Washington State University Board of Regents (Regents) are fiduciaries for the University endowed assets. Pursuant to the Agreement, and subject to this Investment Policy, the Governors, the WSU Foundation, and the WSU Foundation Investment Committee (Committee), as appropriate, are responsible for the investment and management of the WSU Foundation endowed assets and the University endowed assets.

In accordance with WSU Foundation's bylaws, the Committee shall be responsible for investments, reinvestments, and general management of all gifted property and assets of the WSU Foundation (except planned gift assets) and those University endowed assets entrusted to the WSU Foundation for management by contract with the University. The roles and duties of the Committee are further set out in the Committee Charter (Charter) and herein. In the event of conflict between this Investment Policy and the Charter, this Investment Policy shall control. With respect to the components of the Fund, the Committee shall be responsible for implementation of this Investment Policy, and for investing capital, monitoring and reviewing investment performance, establishing appropriate benchmarks, and investment management. Distributions from the Fund are made quarterly in accordance with the spending policy, set out in Section 4.2 hereof and mutually agreed

upon by the Governors and the Regents. Furthermore, the Committee shall report, at least quarterly, to the Governors, the Regents, and University administration the investment performance against benchmarks.

## **2. Allocation of Responsibilities**

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This section describes and delineates the responsibilities of the key parties to the Fund's investment process. The Governors and the Regents, as the governing boards for the WSU Foundation and the University, respectively, have a responsibility to set investment and spending policy with respect to the endowed assets of each entity in the Fund, and to review and approve any changes thereto. Management and investment of the Fund may be delegated to the extent that the WSU Foundation and/or the University may prudently delegate under the circumstances. In delegating, the Governors and the Regents shall act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances.

The responsibilities identified in this section and elsewhere in this Investment Policy delineate the scope of the respective delegations by the Governors and the Regents, and the authority retained.

### **2.1 Governing Boards**

#### **2.1.1 Governors**

The Governors provide performance accountability, membership oversight, and governance evaluation for the Committee. The Governors' responsibilities are to:

- Approve the Investment Policy, inclusive of the spending policy, and changes to the Investment Policy as it relates to the WSU Foundation endowed assets;
- Assess Fund performance against annual goals;
- Review and approve final Governors-appointed candidates for open positions on the Committee, as recommended by the Committee, including additional *ex officio* members, Committee Chair, and Committee Vice Chair;
- Annually review the operational performance of the Committee and its members;
- Review member de-selection recommendations as submitted by the Committee Chair, approve de-selection recommendations of Governors-appointed members, and forward de-selection recommendations of Regents-appointed members to Regents for approval. De-selection does not include normal end-of-term roll-off of members;
- Maintain "best in class" operations by periodically assessing Committee performance and evaluating changes in: the roles and responsibilities of Committee and staff, the structure and composition of the Committee, the characteristics and qualifications of Committee Chair and members, and the Committee support model;
- Address problems with Committee operations as they arise;
- Approve a group of higher education institutions where the WSU Foundation can benchmark its results with endowments similar in size;
- Ensure compliance with the Investment Policy and all applicable laws, regulations, and rulings pertaining to the investment and management of the Fund; and
- Ensure selection of qualified external investment managers to invest Fund assets, and qualified consultants, bank custodians, and other service providers necessary to carry out the duties under this Investment Policy.

### 2.1.2 Regents

The Regents' responsibilities are to:

- Approve the Investment Policy, inclusive of the spending policy, and changes to the Investment Policy as it relates to University endowed assets;
- Review and approve Regents-appointed Committee members;
- Annually review the operational performance of the Fund and the actions of the WSU Foundation, its Governors, and its Committee in their role as manager of University endowed assets in order to monitor performance and compliance with the scope of the delegation of management of University endowed assets; and
- Review and approve de-selection recommendations from the Committee of Regents-appointed members. De-selection does not include normal end-of-term roll-off of members.

## 2.2 WSU Foundation Investment Committee

### 2.2.1 Composition

The Committee is comprised of seven (7) appointed members (voting) and between two (2) and four (4) *ex officio* members (non-voting). The Regents appoint two (2) of these voting members, one (1) of whom must be a member of the Regents, the other who may be a Regent or a volunteer with investment experience selected upon consultation with the Committee, subject to notice to the Governors. These members serve a one-year (1-year) renewable term upon appointment by the Regents. The five (5) other Committee members are appointed by the Governors and are selected from volunteers with investment experience upon consultation with the Committee, and subject to notice to the Regents. These members serve three-year (3-year) renewable staggered terms for a maximum of three (3) terms. *Ex officio* (non-voting) seats are designated by the Governors pursuant to the Charter and shall always include at least one (1) University representative. As of the date of the adoption of this Investment Policy, the Executive Director of Budget and Planning of the University, the CEO of the WSU Foundation, and the Associate Vice President for Finance of the WSU Foundation are *ex officio*. The Committee Chair serves for one (1) two-year (2-year) term and is appointed by the Chair of the Governors. The Committee Chair must be a member of the Governors. The Associate Vice President for Finance of the WSU Foundation serves as Secretary to the Committee. Four (4) voting members are required for a quorum.

### 2.2.2 Duties

The Committee is responsible for the management and investment of the Fund. It may delegate fulfillment of investment and administrative tasks to others. The Committee's responsibilities with respect to the Fund's assets include completing each of the duties below in a prudent manner are to:

- Exercise ordinary business care and prudence under the facts and circumstances prevailing in managing and investing the assets of the endowment. Specific factors guiding the Committee in managing and investing the assets are:
  - General economic conditions;
  - Effects of inflation and deflation;
  - Expected tax consequences of investment decisions;
  - Role of each investment in fund portfolio;
  - Expected total return from income and growth of investments;
  - Other University resources;
  - Needs for the Fund to make distributions and preserve capital;
  - An assets special relationship or special value to the University's mission;

- To incur only costs that are appropriate and reasonable in relation to the Fund's assets;
  - Make reasonable effort to verify facts relevant to the management and investment of the Fund; and
  - Annually (each December) review the Investment Policy.
- Act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in delegating management and investment of the Fund to an external agent in:
  - Selecting the agent;
  - Establishing the scope and terms of the delegation; and
  - Reviewing and monitoring the agent's performance.
- Act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making decisions to appropriate for expenditure or accumulate Fund assets, taking into consideration:
  - Duration and preservation of the Fund;
  - Purposes of the University and the Fund;
  - General economic conditions;
  - Possible effect of inflation or deflation;
  - The expected total return from income and the appreciation investments;
  - Other resources of the University; and
  - This Investment Policy.
- Comply with all applicable state and federal laws, regulations, and rulings that relate to the Fund's investment management process;
- Recommend Investment Policy changes to the Governors and the Regents;
- Operate within the allocation ranges of the Investment Policy;
- Establish and regularly review objectives, asset allocation, and guidelines for the investment of the Funds' assets;
- Establish and regularly review manager structure guidelines for the Fund's components;
- Establish and comply with policies addressing issues that may result in perceived or actual conflicts of interest (including but not limited to relationships with investment managers or other firms doing business with the Fund and receipt of gifts or entertainment above a certain dollar value from firms doing business with the Fund) and other governance issues;
- Select qualified external investment managers to manage the Fund's assets;
- Select other service providers it deems appropriate to carry out its function, including, but not limited to, independent investment consultant(s);
- Meet quarterly to evaluate policy compliance, review progress in achieving the Fund's goals, and assess the effectiveness of the investment program;
- Evaluate the Fund's performance and the performance of the professionals hired to assist the Committee in managing the Fund's investment program;
- Communicate on a regular basis with the investment managers and investment consultant;
- Periodically review and evaluate ongoing understanding and relevance of investment policies of commingled funds in which Fund assets are invested; and
- Take appropriate action if objectives are not being met or if policy and guidelines are not being followed.

### **2.3 Chair of the Committee**

The Chair is responsible for the following duties:

- Provide leadership in the conduct of Committee responsibilities and preside at Committee meetings;

- Report Committee activities and actions and Fund performance at meetings of the Governors and the Regents;
- Communicate on behalf of the Committee, as the Committee speaks with one voice through the Chair;
- Manage the Committee member performance review and de-selection process;
- Participate in new member orientation sessions;
- Collaborate with the WSU Foundation's Associate Vice President for Finance on developing meeting agendas and meeting locations; and
- Must be a member of the Board of Governors.

#### **2.4 WSU Foundation Associate Vice President for Finance**

The Associate Vice President for Finance is responsible for the following duties:

- Assist the Committee in maintaining relevant policies and procedures;
- Coordinate contract reviews and execution;
- Day-to-day relationship management of investment program service providers;
- Act as liaison between the Committee and investment program service providers;
- Monitor asset allocation and rebalance as needed;
- Provide direction letters to the investment managers, bank custodian, and consultant;
- Determine liquidity needs and communicate same to appropriate service providers;
- Monitor manager compliance with the Fund's investment policy;
- Provide reports to internal and external constituencies as required;
- Develop meeting agendas and collaborate with Committee Chair and appropriate service providers, as needed; and
- Provide orientation to new Committee members.

#### **2.5 Custodian Bank**

Fund assets will be held by an institution designated as the Custodian Bank who shall manage, control, and collect the assets of the Fund in accordance with the terms of a separate custodial agreement as well as the terms of this Investment Policy. The Custodian Bank for the Fund is responsible for:

- Fulfilling all the customary fiduciary duties of a custodian in accordance with applicable state and federal laws;
- Receiving all contributions and paying all disbursements and Fund expenses as directed by designated and authorized staff;
- Safekeeping of assets, timely settlement of securities transactions, and the daily sweep of excess cash from manager accounts into suitable cash management vehicles;
- Accurate and timely reporting of the assets to staff by individual manager account(s), investment pool, and total Fund;
- Coordinating asset transfers as requested by staff; and
- Meeting with staff as requested.

#### **2.6 Investment Managers**

The manner in which the Funds' investment objectives are to be accomplished and the accountability of the investment managers in seeking to achieve the investment objectives shall be consistent with the fiduciary provisions of RCW 24.55 and Prudent Expert Rule standards as expressed therein, and other pertinent state and federal laws, regulations, and rulings that relate to the investment process.

The investment managers are given full discretionary authority to accomplish specific investment objectives of the Fund, subject to the guidelines set forth in this Investment Policy. The investment managers are responsible for the following:

- Determining and implementing investment strategy according to the style for which they were hired;
- Implementing security selection and timing decisions;
- Providing reports and data as requested by the Committee, staff, bank custodian, and/or investment consultant;
- Meeting with the Committee and staff as requested; and
- Voting proxies.

Investments in pooled funds shall be subject to the Investment Policy guidelines established by the respective fund managers.

## **2.7 Investment Consultant**

The Investment Consultant is responsible for the following:

- Assist the Committee and staff in maintaining a relevant Investment Policy;
- Evaluate and report performance of Fund assets on a quarterly basis;
- Monitor and report any material changes in personnel, organization, or investment strategy of the Funds' investment managers;
- Proactively suggest improvements to the Funds' investment program;
- Identify appropriate investment manager candidates;
- Provide investment expertise and analyses, as needed by the Committee and staff;
- Keep the Committee informed of current investment trends, issues, and material changes in the regulatory environment;
- Evaluate investment opportunities;
- Recommend asset allocation and manager allocation targets;
- Recommend asset manager finalists; and
- Provide results of selected benchmark schools for Committee to track.

## **3. Investment Objectives**

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The investment objectives of the Fund reflect its long-term nature and intergenerational equity concerns. It is recognized that the desire to grow corpus and to produce a large, stable, and predictable payout stream involves trade-offs that must be balanced in establishing the investment and spending policies. Operating and philosophical considerations shape the Fund's objectives as outlined below.

- Produce a relatively predictable and stable payout stream each year.
- Maintain purchasing power of the assets over the investment horizon.
- Balance the support of present and future generations of students.
- Include assets that provide inflation protection and assets that can drive long-term growth.

### **3.1 Total Fund Return Objectives**

The Fund has multiple investment return objectives:

- The long-term total rate of return should equal or exceed the endowment spending rate (5.5% as of the date of adoption of this Investment Policy) plus the increase in the Consumer Price Index. It is recognized that in order to achieve this objective over extended periods, endowments have had to exceed the objective substantially

during some periods, such as the 1980s, in order to compensate for shortfalls during other periods, such as the 1970s and early 2000s.

- The Fund is expected to produce a rate of return that at least matches that of the Policy Portfolio, which, as of the date of this Investment Policy, is comprised of thirty percent (30%) Wilshire 5000 Index, fifteen percent (15%) MSCI All Country World w/income ex-U.S. Index, twenty percent (20%) Custom Alternatives Benchmark (CPI +600 bp), ten percent (10%) Custom Inflation Hedge Benchmark (Wilshire 5000 + 300 bp), twenty-five percent (25%) Lehman Brothers Aggregate Bond Index. Risk (as measured by standard deviation of quarterly returns) should not exceed that of the Policy Portfolio without a corresponding increase in performance above the Policy Portfolio.

### **3.2 Investment Strategy Objectives**

Achieving these objectives requires a combination of investment strategies that are categorized by differences in their expected response to economic conditions, specifically price inflation or changes to interest rates, and weighted in the Fund by considering risk-adjusted returns and correlations. Broad categories considered in asset allocation are: domestic equities, international equities, alternative assets, inflation hedge strategies, and fixed income.

The Governors and the Regents recognize that asset allocation decisions are the most important factors determining the long-term performance of the Fund, and the success of the investment management strategy. Asset allocation decisions shall be made by the Governors and the Committee as described herein. The Fund's allocation to equities and fixed income and the strategies used within these broad asset classes shall be approved by the Governors with input from the Committee, its Investment Consultant, and staff based upon the current spending policy and estimates of the long-term investment performance likely to be achieved by the various asset classes and investment styles.

Appendix A sets out the current target and minimum and maximum investment by percentage for identified asset classes. Appendix A is subject to change with approval by the Governors upon consultation with the Committee, its Investment Consultant, and staff. The Committee Chair shall inform the University of any changes to Appendix A within ten (10) days of approval of the change. Operating and philosophical considerations that shape the Fund's strategies are outlined below.

- Seek growth of assets by emphasizing equity investments with a mix of active and passive investment strategies, while avoiding excessive risk levels.
- Favor active investment strategies that offer the opportunity to outperform in very poor markets and some opportunity to participate in exceptionally strong markets.

### **3.3 Domestic Equities**

The purpose of holding domestic equity securities is to provide long-term capital growth through participation in the growth of the U.S. economy. The objective of the domestic equity portfolio is to earn, over the long term, an average annual total return, net of fees, that at least matches that of the Wilshire 5000 Stock Index. Risk (as measured by standard deviation of quarterly returns) should not exceed that of the market index without a corresponding increase in performance above the index over a full market cycle.

### **3.4 International Equities**

The purpose of holding international equities is to expand the universe of capital growth opportunities and diversify economic risk. The objective of the international equity portfolio is to earn, over time, an average annual total return, net of fees, that at least matches that of the MSCI All Country World w/income ex-U.S. Index. Risk (as measured by standard deviation of quarterly returns) should not exceed that of the market index without a corresponding increase in performance above the index over a full market cycle.

### **3.5 Alternative Assets - Marketable**

The purpose of investing in marketable alternative assets (specifically absolute return strategies) is to enhance diversification by providing returns that are not dependent on the direction of the stock market or interest rates and are less correlated with the U.S. equity and bond markets than conventional stock and bond managers. The objective of the marketable alternative assets portfolio is to earn, over the long term, an average annual total return, net of fees, that exceeds inflation by at least 6.0% (CPI + 6.0%). Risk (as measured by standard deviation of quarterly returns) is expected to be about 50% of that of the broad U.S. market as measured by the Wilshire 5000, over a full market cycle.

### **3.6 Alternative Assets – Non-Marketable**

The purpose of investing in non-marketable alternative assets (including venture capital and leveraged buyout limited partnerships) is to expand the universe of capital growth opportunities, with the potential to enhance the return of the portfolio, by investing in the non-public sector of the equities market. The objective of the non-marketable alternative assets portfolio is to earn, over the long term, an average annual total return, net of fees, that exceeds the broad U.S. equity market by at least 3.0% (Wilshire 5000 + 3.0%). Risk (as measured by standard deviation of quarterly returns) is expected to exceed the benchmark by a commensurate amount.

### **3.7 Inflation Hedge Strategies**

These assets provide attractive returns, visible current cash flows, portfolio diversification, and a hedge against unanticipated inflation. Inflation hedging assets are expected to provide relative stability to the Fund during periods of public market turmoil but tend to impose a drag on performance during bull markets. The objective of the inflation hedge is to earn, over the long term, an average annual total return, net of fees, that exceeds inflation by at least 5.0% (CPI + 5.0%). Risk (as measured by standard deviation of quarterly returns) is expected to be halfway between that of the U.S. fixed income market (Lehman Aggregate) and broad U.S. equity market (Wilshire 5000).

### **3.8 Fixed Income**

The purposes of the fixed income investments are to provide some protection against financial disruptions and periods of deflation, to provide higher current income than equities to help meet the spending requirements, and to mitigate the volatility of the Fund. The objective of the fixed income portfolio is to earn, over the long term, an average annual total return net of fees that at least matches that of the Lehman Brothers Aggregate Bond Index. Risk (as measured by standard deviation of quarterly returns) should not exceed that of the index without a corresponding increase in performance above the index over a full market cycle.

## 4. Policy Guidelines

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### 4.1 Spending Policy/Rebalancing/Cash Flow Management

In rebalancing, investing, or withdrawing cash in accordance with these provisions, the percentages specified shall be determined with reference to the market values set forth in the most recent bank custodian balances then available and taking into account the cash to be invested or withdrawn.

#### 4.1.1 Spending Policy

Funds flow from the Fund to the University for the purposes specified in the donor agreements and to the WSU Foundation for operating support. The Fund Spending Policy is intended to balance the competing goals of providing a stable payout stream each year with maintaining the purchasing power of the assets. The Spending Policy takes into consideration the following factors:

- Duration and preservation of the Fund;
  - Purposes of the University and the Fund;
  - Possible effect of inflation or deflation;
  - Expected return from income and appreciation of investments;
  - Other University resources; and
  - The Fund Investment Policy.
- Withdrawals shall be made from the Fund only pursuant to this Spending Policy and in consideration of the factors listed in Section 2.2 of this Spending Policy regarding appropriation of Fund assets for expenditure or accumulation of Fund assets.
  - The Spending Policy is for the Fund to distribute 5.5% per year (4% for individual accounts and 1.5% for the Management and Advancement Fee) computed quarterly based on the average market value for the thirty-six (36) months preceding and including the quarter ended prior to the distribution date, adjusted for new gifts on the first day of the distribution quarter, hereinafter referred to as the “distribution calculation.” In addition to annual reviews, if the Fund’s real return (nominal return minus CPI) falls below 5.5% over the previous three-year (3-year) rolling time period, the Governors and Regents shall be notified in the next reporting cycle for purposes of determining whether to revise the rate. No distributions will be made from an individual endowment fund until it has reached the established minimum endowment level or the target balance specified in the gift instrument and at least one (1) full quarter investment history after reaching that threshold balance.
  - Distributions from the Fund will be computed quarterly based on the average market value for the thirty-six (36) months preceding and including the quarter ended prior to the distribution date. (For example, the September 30, 2009, distribution was based on monthly market values for the period July 31, 2006, through June 30, 2009).
  - Fund distributions will include cash-basis expenses for scholarships, grants, capital, operating, and administrative costs of the WSU Foundation programs. Investment-related expenses (e.g., investment manager and investment consultant fees, custody charges, etc.) will be charged against the Fund’s investment return, and are not considered a part of the 5.5% annual distribution.
  - Market downturns present a particular challenge in balancing the goals of a stable payout stream and maintaining purchasing power. In a market downturn, individual endowment funds may have a market value that is less than the corpus (principal) of the fund; such a fund is defined to be “underwater” for purposes of this Spending Policy. A distribution from an underwater fund results in a reduction

of principal. The decision to distribute or not distribute from an underwater fund depends initially on the donor's expressed written instructions. If the donor specifies that the principal (corpus) may not be invaded, or places other restrictions on spending, then distributions from that fund shall be made in accordance with the donor's restrictions. For those funds designated as professorships or fellowships under RCW 28B.76.550-.63, the principal may not be invaded. Therefore, for funds under the above statutory provisions, no distribution will be made if the fund is underwater; further, if a distribution will cause such a fund to go underwater, then the distribution shall be decreased by the amount necessary to preserve the principal of the fund, and distributed in accordance with the distribution calculation. For all other funds, distributions shall be made consistent with the prudence principles herein and as stated in RCW 24.55 (Uniform Prudent Management of Institutional Funds Act, UPMIFA), with an emphasis on the duration of the fund. All determinations herein shall be made based on fund values on the end date of the distribution calculation period, e.g., the value of the given fund on the quarter ended prior to the distribution date.

#### **4.1.2 Rebalancing/Cash Flow Management**

Rebalancing and cash flow management will be made in amounts and proportions intended to preserve the asset allocation targets set forth in Section 4.1 above.

- Rebalancing will be undertaken when the allocations fall outside of the ranges specified above. The staff, in consultation with the Committee and/or the Investment Consultant, as appropriate, will initiate the rebalancing process through written instruction to the Fund's custodian and investment managers.

#### **4.2 Usage of Derivatives**

**4.2.1** The Committee recognizes that investment managers have come to use various derivative instruments and that the prudent use of such instruments can be advantageous for controlling portfolio risk, increasing returns, implementing strategies quickly and reducing costs. Accordingly, the Committee permits the use of derivative securities only in a manner consistent with the overall investment objectives and policies described herein.

**4.2.2** Derivatives may be used by the WSU Foundation's investment managers to hedge existing portfolio investments (e.g., to hedge the currency risk of a foreign stock or bond position) or to create un-leveraged investment positions as a more efficient and cheaper alternative to investments that would otherwise be made in the cash market (e.g., purchasing Treasury bond futures contracts). Derivatives may not be used by marketable securities managers to leverage a portfolio or significantly increase its risk above that of an account with similar objectives that is managed without derivatives. Use of derivatives by a manager, other than as described in this paragraph, is permitted only if authorized by the Committee. This provision does not apply to investments with absolute return or hedge fund managers.

**4.2.3** The Committee expects that its investment managers utilizing derivatives will have in place processes and procedures to control and measure risk.

#### **4.3 Proxy Voting**

The Committee acknowledges its responsibility for seeing that the proxy voting rights for securities held by the Fund are exercised in a prudent manner and in the best interests of the Fund beneficiaries. The Committee may delegate their proxy voting rights to the investment managers of the Fund, or to another qualified agent that acknowledges that it

will function as a fiduciary with respect to exercising proxy voting rights. Any such third party shall provide a complete listing, no less frequently than annually, of the issues for which proxies were voted and how the votes were cast. Proxy voting responsibilities have been delegated by the Committee to the investment managers.

#### **4.4 Securities Lending**

The Committee may allow for the lending of Fund securities, to earn additional income for the Fund, pursuant to a securities lending policy that is consistent with the investment objectives of the Fund. The Committee may delegate securities lending activities (including the management of collateral received for the borrowed securities) to a qualified securities lending manager that acknowledges that it will function as a fiduciary with respect to the lending of Fund securities (and the management of collateral received) to the extent that the securities lending manager exercises discretionary authority under the securities lending agreement. Any such third party shall provide a complete accounting, no less frequently than annually, of the lending activities and income earned by the Fund.

#### **4.5 Cougar Investment Fund**

The Governors and Regents deemed it prudent to allocate a one-time amount of one million dollars (\$1,000,000) from the Fund to the Cougar Investment Fund (CIF). The CIF is managed by students as the central component of a special section of an approved professor of Investments and Portfolio Theory and Risk Management classes. The portfolio is subject to risk controls, oversight, and reporting guidelines specified in a separate Memorandum of Understanding. In addition to providing the Fund with organizational diversification within the large cap core U.S. equity portfolio, the CIF provides valuable experience to the students in applied securities analysis and portfolio management and enhances the University's ability to attract and retain quality, high-achieving students.

#### **4.6 Conflicts of Interest**

No Committee member should be placed in a conflict of interest position.

All persons responsible for investment decisions, including Committee members, or who are involved in the management of the WSU Foundation or who are consulting to, or providing any service whatsoever to the Committee, shall adhere to the WSU Foundation Conflicts of Interest Policy, attached hereto for reference.

This provision shall not preclude the payment of ordinary fees and expenses to the WSU Foundation's custodian(s), investment managers, or Investment Consultant in the course of their services on behalf of the WSU Foundation.

Further, this provision does not replace obligations under the Washington State Ethics Act, which applies to all state officers and state employees.

### **5. Monitoring of Objectives**

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5.1 The Committee will normally review the Fund's asset allocation, manager team, and performance at least quarterly in order to evaluate diversification and progress toward long-term objectives, and will direct the Associate Vice President for Finance of the WSU Foundation to make such review, or have such review made by a consultant with appropriate expertise, each quarter. While short-term results will be monitored, it is understood that the objectives for the Fund are long-term in nature and that progress toward these objectives will be evaluated from a long-term perspective (i.e., 20 years or longer).

5.2 Each manager's performance will be evaluated against an appropriate passive index and the median return of an appropriate universe of institutional quality managers or funds as determined by the Committee. The Committee will evaluate each manager periodically in order to establish that the factors that initially led to performance expectations remain in place and that each manager's philosophy is appropriate for the Fund's overall objectives.

5.3 At its sole discretion, the Committee may terminate any manager at any time if it determines for whatever reason that the manager is no longer appropriate for the Fund.

5.4 The Committee shall provide each manager of a separately managed account with a set of mutually agreed-upon guidelines.

5.5 The Committee may invest in a commingled fund (e.g., a mutual fund or limited partnership agreement), provided that the policies of such fund are consistent with this Investment Policy. The Committee will periodically review the policies of any commingled fund investment in order to determine if they remain appropriate for the Fund.

5.6 The Committee shall have prepared and shall review, on a quarterly basis, an investment performance report setting forth the asset allocation of the Fund and the investment returns by asset class, manager, and for the total Fund. The returns shall be calculated on a time-weighted basis, net of manager fees, for the most recent quarter for which data are available and any other periods that the Committee may select and shall include fiscal-year returns when such data are available. The Committee will use the short-term performance data to monitor the Endowment Fund and the managers for consistency of investment philosophy, returns relative to performance benchmarks, and volatility of returns.

5.7 The Committee, through the Investment Consultant and staff, shall have regular communication with the managers of actively managed accounts concerning investment strategy and outlook.

5.8 The Associate Vice President for Finance of the WSU Foundation shall prepare a report for the Governors and the Regents summarizing significant actions taken by the Committee during each fiscal year, and shall provide to the Governors and the Regents the report(s) from consultant(s) regarding the Fund's asset allocation as of the end of each fiscal year and performance for the fiscal year.

5.9 The Chair of the Committee shall notify the Chair of the Governors and the Chair of the Regents immediately upon becoming aware of the occurrence of any event that might preclude the Fund from achieving its long-term investment objective.

## **6. Communications and Reporting**

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### **6.1 Chair of the Committee**

Annually, the Chair will:

- Distribute forms and compile performance reviews of Committee members;
- Summarize and report overall Committee performance to Governors and Regents with recommendations for changes in Committee membership (de-selection) as needed;

- Present a report to Governors and Regents summarizing the Fund's asset allocation as of the end of each fiscal year, performance for the fiscal year and other periods then ended, and any significant actions taken by the Committee during the fiscal year; and
- Meet with Governors and Regents, or duly authorized subcommittees thereof, to review and discuss Fund performance, investment strategy and strategy changes, and Committee member performance. Additional meetings may be held as needed.

Quarterly, the Chair or Chair's designee will:

- Provide a report of Fund performance to Governors and Regents and designated University staff that includes the performance report provided to the Committee by its Investment Consultant, which shall be posted on a WSU Foundation Web site.

## 6.2 WSU Foundation Staff

Promptly after adoption or approval, staff will:

- Provide copies of Committee meeting minutes to the members; and
- Provide copies of recommended amendments, additions, or deletions to this Investment Policy to Governors and Regents.

## 6.3 Investment Managers

Immediately, each investment manager will report, in writing:

- Any and all material changes in the firm's ownership, management, investment personnel, and investment style and approach; and
- Any occurrences of material litigation or regulatory investigation.

Quarterly, each investment manager will:

- Provide a report to the WSU Foundation Associate Vice President for Finance on Fund assets and performance. The report is to show a list of current holdings at cost and market, transactions occurring during the quarter, capital gains and losses, a summary of the investment performance of the account (on a time-weighted basis, both gross and net of fees) and the use of derivatives. Separate account managers will include a reconciliation of the Fund's custodian statements to the manager's records.

Annually, each *equity* investment manager will provide the Investment Consultant and WSU Foundation Associate Vice President for Finance:

- A report on the various transaction charges incurred on behalf of the Fund. The report shall indicate the number of shares traded, brokerage firms used, total trading costs, and cost per share; and
- Present a copy of proxy voting policies and report on the manner in which proxies were voted.

As needed, each investment manager will:

- Submit recommended changes to this Investment Policy in writing, to the Investment Consultant and WSU Foundation Associate Vice President for Finance for review and presentation to the Committee. Such recommendations should, where possible, quantify the benefit of the suggested changes.

## **6.4 Investment Consultant**

On a quarterly basis:

- Provide the Committee with performance reports detailing the performance of individual managers, asset classes, and the total Fund, including relevant performance standards and assessment of managers' continued appropriateness for inclusion in the Fund's investment program.

On an annual basis:

- Provide the Committee with any recommended changes needed to this Investment Policy;
- Participate in the Committee's annual planning process; and
- Provide an appropriate peer group fee analysis.

## **7. Evaluation and Review**

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### **7.1 Evaluation**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Performance and Investment Policy compliance will be measured and evaluated no less than quarterly by the Committee and annually by the Governors and the Regents. Performance will be evaluated on a long-term basis, in light of the investment environment and investment style of each manager. Evaluation will take into consideration both rates of return and volatility of returns, as well as the consistency and discipline with which each manager or limited partnership applies its investment strategy.

This Investment Policy will be evaluated at least annually by the Committee, with input from the investment managers, Investment Consultant, and staff, to ensure its continuing relevance. The Chair of the Committee, through coordination with staff, will forward recommendations for change to this Investment Policy to the Governors and the Regents.

If at any time in review of this Investment Policy the Governors and the Regents elect to have differing investment or spending policies, each entity shall separately adopt a new policy and the Consolidated Endowment Fund shall be divided into two funds, one holding University endowed assets and another holding WSU Foundation endowed assets. Each entity will diligently pursue such division and ensure that it occurs in a timely, reasonable, and prudent manner. Upon completion of the division, each fund shall be managed in accordance with the new investment and spending policy for that fund by the entity(ies) so designated in the new policies.

Investment management fees will be compared to an appropriate universe, supplied by the investment consultant, on an annual basis.

### **7.2 Meetings**

The Committee will meet at least quarterly, coinciding with the performance reporting cycle. Additional meetings will be held as needed to accommodate special needs of the Committee or Trustees.

Each investment manager will meet at least annually with staff or the Investment Consultant to review the investment performance of the Funds' assets allocated to that investment manager, discuss current and expected changes in investment strategy, discuss any changes in personnel and investment philosophy, and discuss the firm's business plan and any litigation or regulatory issues.

The Investment Consultant will meet with the Committee quarterly to review performance and discuss investment program issues.

APPENDIX A

<i>ASSET CLASS</i>	<i>TARGET</i>	<i>MINIMUM</i>	<i>MAXIMUM</i>
<b>Growth Assets</b>	<b>50%</b>	<b>40%</b>	<b>60%</b>
U.S. Equities	15%	12%	18%
Non U.S. Equities	20%	16%	24%
Private Equity	15%	12%	18%
<b>Risk Reduction Assets</b>	<b>30%</b>	<b>24%</b>	<b>36%</b>
U.S. / Global Fixed Income	5%	-	6%
Absolute Return	20%	16%	24%
<b>Inflation Protection Assets</b>	<b>20%</b>	<b>16%</b>	<b>24%</b>
U.S. Inflation Protected Fixed	5%	-	6%
Real Assets	15%	12%	18%
<b>TOTAL</b>	<b>100%</b>		