

## Florida Institute of Technology Investment Policy Statement

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## **Goals and Objectives**

### *Purpose*

In recognition of its fiduciary responsibility, the Florida Institute of Technology Board of Trustees has adopted the following investment management guidelines. These guidelines relate to gifts, donations, and funds restricted by the Board of Trustees in the form of endowments with long-term benefit objectives.

### *Objective*

The investment objectives for the management of endowment assets are to maximize the benefit intended by the donor, to produce current income to support the programs of the University and donor objectives, and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets. The Endowment Fund Investment Policy embraces the total return concept. The following formula summarizes the factors involved in the Endowment Fund Investment Program:  $\text{Real Asset Growth Rate} = \text{total investment return} - \text{CPI} - \text{management costs} - \text{annual payout amount}$ .

The investment program attempts to balance current need and future support so that in the future, the Endowment Fund will provide at least the same value of annual financial support as is currently provided.

The fund is managed in compliance with the Uniform Prudent Management of Institutional Funds Act.

### *Spending Policy*

It is the policy of the Florida Institute of Technology Board of Trustees to annually distribute an amount equal to 5% of the average endowment value for the previous 36 months calculated at the end of each calendar year. Annual, nominal changes greater than 10% require Finance Committee approval. The calculation of endowment market value should not include any portion of the Endowment which, by donor or board restriction, all income from the investment must be spent on the designated purpose.

## **Investment Management**

It is the policy of the Florida Institute of Technology Board of Trustees that the Endowment of the University be invested and managed by professionally qualified investment management firms. The Investment Sub-Committee of the Board of Trustees shall have oversight responsibilities for endowment management and shall determine if additional or different investment management firms should be selected due to growth of the Endowment or changing needs of the University.

## *Asset Allocation*

The policy is to diversify investments within equity, fixed-income securities and alternatives to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

## *Asset and Sub Asset Class Range, Targets and Indexes*

After review of mean variance (efficient frontier), probability and other data, the Investment Sub-Committee and the Finance Committee have established specific targets and ranges for asset, sub-asset class and style allocations. The 2007 Russell 3000 Index served as a domestic equity allocation proxy. The committee may deviate from the proxy target and ranges at their discretion. The target allocation and ranges are:

Asset Class	Sub Asset Class	Target (Sub)	Range	Index
Fixed Income		25%	20-40%	Barclays US Aggregate
	Domestic Core	22%	20-25%	Barclays US Aggregate
	International/EM	3%	0-5%	JPM GBI Broad
Equity		72%		
Domestic Equity		48.2%	42-66%	Proportional Blend of Indexes listed below
	Large Growth	17.22%	14-21%	Russell 1000 Growth
	Large Value	17.22%	14-21%	Russell 1000 Value
	Small Growth	6.89%	4-10%	Russell 2000 Growth
	Small Value	6.89%	4-10%	Russell 2000 Value
Intl/EM Equity		23%	20-26%	MSCI World Ex US
	International/EM	23%	20-26%	MSCI World Ex US
Alternatives		3%	0-6%	
	Inflation Hedge	3%	0-6%	CPI+3% & Blend 40% Tip, 20% Bloomberg Commodity, 20% FTSE/NAREIT DevMrkt Index

## *Restricted Securities & Guidelines*

### **Common Stocks**

Stock investments should be diversified in terms of industry. No more than five percent (5%) of the market value of the equity portion of the Endowment's assets should be invested in

any single company.

All percentage limitations are at the time of investment. If percentages are exceeded as a consequence of market action or additions or withdrawals to the endowment, investment managers shall bring their portfolios back to pertinent guidelines as soon as is reasonably practicable.

## **Fixed-Income Investments**

### Cash and Equivalents

Fixed-income investments may include short-term, money market securities. Such investments, however, shall be kept at the minimum level, not normally exceeding ten percent (10%) of the total Endowment Fund. Such investments shall be made in U.S. Treasury Securities, Commercial Paper, and Money Market Securities issued by institutions with proven high-quality credit ratings or by pooled funds with demonstrably high-quality credit standards.

### Bonds

It is expected that the largest percentage of fixed income investments shall be invested in portfolios of High-Quality (Investment Grade or better) Corporate Bonds, U.S. Treasury Securities, issues of Foreign Sovereigns, or High-Quality Foreign Corporate Bonds.

## **Alternative Investments**

The fund cannot invest in or accept illiquid investments (not marketable within a month) without Finance Committee approval.

Real Estate: Equity investments may also include equity real estate investments in professionally managed income-producing property. Such investments, however, shall not exceed fifteen percent (15%) of total equity assets, and not more than five percent (5%) of total equity assets shall be committed for real estate investment in any two-year period in order to achieve diversification over time. The value of donated gifts of real estate will be considered part of the real estate asset allocation for consideration of rebalancing or revising asset allocations. Restricted gifts of real estate and real estate used for current or future athletic/educational/research endeavors are not part of the Endowment.

## **Private Equity and Venture Capital**

Equity investments may also include private equity or venture capital investments. Such investments shall not exceed ten percent (10%) of total equity assets, must be made through pooled funds offered by professional investment managers, and will be categorized as Small Cap Growth.

## **Managed Futures**

Managed Futures Funds are part of the Equity Global Allocation. It is expected that Managed Futures will reduce the standard deviation of the portfolio without reducing long term return. The individual investments in Managed Futures will be evaluated as a separate asset class but the overall portfolio will not include an allocation to the Managed Futures Index. This will allow for review of the manager level performance and assessment of the impact of Managed Futures inclusion.

## **Other Restrictions**

Certain funds are obtained by the University through donations where the donor has placed restrictions on the form of investment to which these amounts may be applied; either directly by specifying qualifying investment vehicles or indirectly by stipulating a higher-than-normal spending rate. Such funds will be invested according with the donor's requirement to the extent such requirement is a condition of the gift and will be excluded from the total pool of available funds subject to the present investment guidelines with respect to asset allocation. The management of restricted and unrestricted endowment will essentially be the same. The monitoring and reporting of the restricted accounts will be handled according to the restrictions.

The following actions and securities are prohibited without permission from the Finance Committee: Short selling, futures, options, derivatives (except as used in the course of normal business operations), private investments, unlisted equity securities, restricted stock and securities that generate unrelated business income tax (For exceptions, see amendments).

## ***Rebalancing & Manager Selection***

Quarterly, the consultant is to prepare an asset allocation analysis, based on manager objective that compares the current allocation to the target allocation. The sub-committee will consider rebalancing when an asset class or style allocation deviates more than 2 1/2 % from its target allocation.

Fund flows will be allocated (withdrawn) in an effort to bring the endowment closer to the target allocation.

Managers will be selected based on criteria including: Management experience, tenure, philosophy, process, size, historical risk, style and others. Performance standards will vary depending upon the asset class and style of the manager and how they integrate into the overall portfolio.

*The Investment Sub Committee's selection of Investment Manager(s) must be based on prudent due diligence procedures. The Committee will select investment options using criteria developed in consultation with the Investment Consultant. Selection considerations may include (but are not limited to):*

1. *Clearly defined investment objectives*
2. *Adherence to stated investment style*
3. *Tenure and experience of investment manager and/or management team*
4. *Absolute and risk-adjusted performance relative to other investments in its category, especially over multi-year time periods*
5. *Minimum track record of three years*
6. *Expenses relative to other investments in its category*
7. *Material legal and regulatory issues*

*The Investment Sub Committee may consider any other factors it deems relevant.*

*The Committee requires that each investment manager provide, in writing, acknowledgment of fiduciary responsibility to the Fund.*

### ***Performance Objectives and Monitoring***

Investment performance will be reviewed annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Guidelines.

Quarterly performance will be evaluated to test progress toward the attainment of longer-term objectives. It is understood that there will be short-term periods during which performance deviates from market indexes. During such times, greater emphasis shall be placed on peer performance comparisons with managers employing similar styles. The risk associated with each manager's portfolio, as measured by the variability of quarterly returns (standard deviation) should not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

The expectation is that each manager will outperform the appropriate agreed upon index and be in the top 50% of managers with a similar style over a complete market cycle.

## **Fiduciary and Administration**

### ***Voting of Proxies***

Voting of proxy ballots shall be for the exclusive benefit of the Fund. Unless the Board provides information on how to vote a specific proxy, investment managers or the investment consultant shall vote proxies in accordance with the best interest of the Fund.

## ***Pooled Funds***

Investing through a pooled fund (i.e. mutual fund) vehicle means that the investments will be governed by the funds own set of guidelines and restrictions. While the intent is to invest funds which meet these guidelines, there may be instances in which the pooled fund's guidelines differ. In such cases, the pooled fund guidelines and restrictions will supersede those outlined above. For that reason, pooled fund investments may be made only with investment sub-committee approval. Before a pooled fund can be used, the investment manager shall provide the Investment Sub-Committee with a prospectus of the fund and shall identify, in writing, any guidelines and restrictions that differ from those outlined above. To the extent that pooled funds are implemented, the fees imposed should be at no higher cost than that incurred if the securities were separately managed.

## ***Duties of the Parties to the Fund***

Specific responsibilities of the Finance Committee include the following:

1. Review and approve an Investment Policy for the Endowment, which addresses asset allocation, acceptable risk levels and total return objectives.
2. Review and approve investment guidelines relating to eligible investments, diversification, and concentration restrictions.
3. Monitor adherence to the Investment Policy and evaluate performance based on achieving stated objectives.
4. Specific Actions:
  - A. Approves – Investment Policy Statement and Fiduciary Review
  - B. Informed – Strategy within an Asset Class and Manager/Fund selections
  - C. Informed & Monitors – Investment Strategy and Performance

Specific responsibilities of the Investment Sub-Committee include the following:

1. Evaluate performance of investment consultant and investment managers, and make changes if needed.
2. Select investment consultants, professional investment managers, bank custodians, and other experts, as needed.
3. Report activity to the Finance Committee.
4. Specific Actions:
  - A. Approves – Strategy within an Asset Class, Manager/Fund selections
  - B. Approves & Monitors – Investment Strategy and Performance
  - C. Approves & Conducts – Fiduciary Review
  - D. Recommends – Investment Policy Statement
  - E. Informed – Security Selection

Specific responsibilities of the Financial Consultant include the following:

1. Monitor adherence to the Investment Policy.
2. Provide quarterly investment performance reports.
3. Provide ongoing investment performance evaluation.
4. Rebalancing: provide monthly information that compares our current asset class and manager allocations to our target. Implement any adjustments approved by the Investment Sub-Committee.
5. Evaluation of potential investment manager candidates.
6. Ongoing research of asset allocation strategies.
7. Research source for the Investment Sub-Committee and the Finance Committee.
8. Conduct annual reviews of Investment Fiduciary policies and provide services needed for compliance.
9. Specific Actions:
  - A. Recommends & Monitors – Investment Policy Statement, Investment Strategy & Performance, Strategy within an Asset Class, Manager/Fund Selections and Fiduciary Review
  - B. Monitors – Security Selection

### ***Asset Disposition Policy***

It is the university's policy to immediately sell stocks that are given to the university and deposit the proceeds with the investment managers. If a prospective donor stipulates the retention of donated stocks, gifts of common stock may be included in the equity portfolio provided such stocks are consistent with all investment guidelines. To the extent such gifts of common stock would require a greater percentage of endowment assets to be committed to any stock class, lower the overall return, or would be deemed by management counsel to constitute undue market risk, such gifts would be declined by the university. The board by  $\frac{3}{4}$ 's vote reserves the right to accept gifts in contrivance to the above stated policy.

Gifts of income producing real estate may be included in the equity portfolio provided they are consistent with the management guidelines. To the extent such gifts of real estate would require a greater percentage of endowment assets to be committed to this asset class, or would constitute a negative cash-flow, or would be deemed by professional management counsel to constitute undue market risk, such gifts would be disposed at sale and the proceeds directed to the general endowment pool for the benefit of programs consistent with the donor's interest. If the real estate gift is restricted from sale by the donor, to the extent such gifts of real estate would require a greater percentage of endowment assets to be committed to real estate, lower the overall return, or would be deemed by management counsel to constitute undue market risk, such gifts would be declined by the university.



## *Timeline of Fiduciary Activities & Responsibility Matrix*

<b><i>Timeline of Fiduciary Activities</i></b>	
<b>Date</b>	<b>Description</b>
<b>Winter</b>	Quarterly Review
	Investment Policy Review
	Probability Analysis (Test of our Asset Allocation)
<b>Spring</b>	Quarterly Review
	NACUBO Study
	Fee and Services Audit
<b>Summer</b>	Quarterly Review
	Fiduciary Review - 27 Items NACUBO Study
<b>Fall</b>	Quarterly Review
	Responsibility Matrix Paperwork/Internal Controls

<b><i>Responsibility Matrix</i></b>						
<b>Fiduciary Level</b>	<b>Written Investment Policy</b>	<b>Investment Strategy &amp; Performance</b>	<b>Strategy Within An Asset Class</b>	<b>Manager &amp; Fund Selections</b>	<b>Security Selection</b>	<b>Fiduciary Review</b>
<b>Board of Trustees</b>	INFORMED	INFORMED				INFORMED
<b>Finance Committee</b>	APPROVES	INFORMED & MONITORS	INFORMED	INFORMED		APPROVES
<b>CFO</b>	INFORMED & MONITORS	INFORMED & MONITORS	INFORMED & MONITORS	INFORMED & MONITORS	INFORMED	RECOMMENDS & MONITORS
<b>Investment Sub-Committee</b>	RECOMMENDS	APPROVES & MONITORS	APPROVES	APPROVES	INFORMED	CONDUCTS & APPROVES
<b>Investment Consultant</b>	RECOMMENDS & MONITORS	RECOMMENDS & MONITORS	RECOMMENDS & MONITORS	RECOMMENDS & MONITORS	MONITORS	RECOMMENDS & MONITORS
<b>Individual Managers</b>					APPROVES	

## **Appendix & Amendments**

### ***Conflict of Interest Statement***

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Pinkerton Wealth Management Group is affiliated with Wells Fargo Advisors Financial Network. Wells Fargo Advisors Financial Network is a wholly owned subsidiary of Wells Fargo.

Galliard, the manager of the Endowment's Fixed Income Portfolio is a wholly owned subsidiary of Wells Fargo. Galliard was recommended for the search by Patrick Bauman. This conflict was disclosed during the search process. Mr. Pinkerton receives no part of the Galliard fee, soft dollars, fee rebates or any remuneration of any kind.