Utah State University Endowment Pool
Investment Guidelines

I. Purpose

The purpose of this document is to set forth the guidelines, goals, and objectives of the Utah State University Endowment Pool for the implementation of investment strategy.

The Endowment Pool is intended to provide financial stability and permanent funding for current and future mission based initiatives. Investment guidelines are crucial to the long-term success of the Endowment Pool. As such, these guidelines are developed with the following goals in mind:

- To clearly and explicitly establish the objectives and constraints that govern the investment of Endowment Pool assets;
- To establish a long-term target asset allocation that has a high likelihood of meeting investment objectives given the explicit constraints.

II. Definitions

a. Institutional Fund

- A fund that is primarily for appreciation or the production of income, and intended to be held in perpetuity.
- Institutional Funds do not include: program-related assets which are assets held to accomplish the purpose of the institution and not primarily for appreciation or the production of income.

b. True Endowment

- A true endowment is defined as an endowment in which the donor stipulates that the corpus must be held inviolate and in perpetuity and invested to generate income to be spent for a specific purpose.

c. Internally Designated Funds Functioning as Endowments

- Funds, regardless of source, whose corpus is intended to be held in perpetuity by internal designation.

III. Investment Objectives

The investment strategy of the Endowment Pool is designed to ensure the prudent investment of funds in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss.

a. Risk Objectives

i. To accept a level of risk as required to achieve the Endowment Pool's return objective as stated below.

ii. To structure the portfolio to have a low likelihood of experiencing a loss over any five-year period.
iii. To use extensive diversification to reduce exposure to company and industry specific risks within the aggregate investment portfolio.
iv. To the extent possible, reduce the annual volatility in the asset base that supports the level of spending.

b. Return Objectives

i. In a manner consistent with the goals stated in Section I above, to achieve the highest, reasonably prudent real return possible.
ii. To protect the corpus of assets in real (i.e., inflation adjusted) terms. Specifically, to achieve an average annual net-of-fee return no less than the sum of the spending rate (outlined in Section V), annual operating expenses, and the annual rate of inflation.

IV. Investment Constraints

a. Legal and Regulatory

The Investment Advisory Committee intends to manage the assets of Utah State University at all times in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

b. Time Horizon

The assets of the Endowment Pool will be invested with a long-term time horizon, generally twenty years or more, consistent with the long-term mission of Utah State University.

c. Liquidity

Given Utah State University's long-term horizon, liquidity for the purpose of spending will be a moderate concern. The Investment Advisory Committee will regularly monitor liquidity needs, spending projections, and the impact of changes in regulations or other circumstances.

d. Tax Considerations

Utah State University is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on the basis of expected risks and potential returns.

V. Spending Policy

For True Endowments, Utah State University aims to withdraw, for the spendable purpose(s) described in the gift agreement, no more than 5% of the average Endowment Pool market value for the preceding three fiscal years.
In order to ensure a stable and predictable level of spending from year-to-year, fluctuations in annual investment returns will be "smoothed" by using a 12-quarter moving average of the Endowment Pool's market value for the three preceding fiscal years.

The University may withdraw an advancement fee from the Endowment Pool for the purpose of supporting on-going Advancement efforts. This fee will be based upon a budget approved by the President and will not exceed 1½ percent of the 12-quarter moving average of the portfolio fair market value for the three preceding fiscal years, with a budget lead time of one year.

Within these constraints, the Investment Advisory Committee recognizes that the amount withdrawn from the Endowment Pool for disbursements should be reviewed on an annual basis.

VI. Risk and Return Considerations

The Investment Advisory Committee recognizes the risks associated with investing in the capital markets (market risks), and will reduce wherever possible those risks for which Utah State University is unlikely to be compensated (non market or diversifiable risks).

VII. Diversification

The Investment Advisory Committee recognizes that an important element of risk control is diversification. Therefore, investments will be allocated across multiple asset classes, chosen in part for their low correlation of returns. Within each asset class, the Investment Advisory Committee will seek to distribute investments across many individual holdings, thus expecting to further reduce volatility.

VIII. Asset Allocation

The Investment Advisory Committee recognizes that the allocation of monies to various asset classes will be the major determinant of the Endowment Pool's return and risk experience over time. Therefore, the Investment Advisory Committee will allocate investments across those asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the Endowment Pool's investment objectives.

a. Permissible Asset Classes
Because an investment in any particular asset class may or may not be consistent with the investment objectives of the Endowment Pool, the Investment Advisory Committee has specifically indicated in Appendix A those asset classes that may be utilized when investing Endowment Pool assets.

b. **Long-Term Target Allocations**
Based on the investment objectives and constraints of the Endowment Pool, and on the expected behavior of the permissible asset classes, the Investment Advisory Committee will work with the Investment Advisor to specify a long-term target allocation for each class of permissible assets. These targets will be expressed as a percentage of the Endowment Pool's overall market value, surrounded by a band of permissible variation resulting from market forces.

The long-term target allocations are intended as strategic goals, not short-term imperatives. Thus, it is permissible for the overall Endowment Pool's asset allocation to deviate from the long-term target, as would likely occur during manager transitions, asset class restructurings, and other temporary changes in the Endowment Pool. Deviations from targets that occur due to capital market changes are discussed below.

Broad asset allocation targets are indicated in Appendix B.

c. Rebalancing

In general, cash flows to and from the Endowment Pool will be allocated in such a manner as to move each asset class toward its target allocation.

The Investment Advisory Committee recognizes that, periodically, market forces may move the Endowment Pool's allocations outside the target ranges. The Investment Advisory Committee also recognizes that failing to rebalance the allocations could unintentionally change the Endowment Pool's structure and risk posture. However, the Investment Advisory Committee understands that constant rebalancing could result in a significant increase in explicit and implicit trading costs to the Endowment Pool. Consequently, the process of rebalancing allocations will occur periodically.

On at least an annual basis, if any allocation is outside the specified target range, assets will be shifted to return the strategy to the target range. The specific plan for rebalancing will identify those assets that can be shifted , recognizing possible risks and costs, if the rebalancing cannot be accomplished solely by allocating contributions and withdrawals.

IX. Review of Investment Policy, Asset Allocation, and Performance

The Investment Policy will be reviewed at least annually by the Investment Advisory Committee to ensure that the objectives and constraints remain relevant. However, the Investment Advisory Committee recognizes the need for a stable long-term policy for the Endowment Pool, and major changes to this policy will be made only when significant developments occur.

The Investment Advisory Committee will specifically evaluate the performance of the Endowment Pool relative to its objectives and to the returns available from the capital markets during the period under review. In general, the Investment Advisory Committee will utilize relative, rather than absolute, benchmarks in evaluating performance.

X. Investment Costs

The Investment Advisory Committee intends to monitor and control investment costs.

XI. Investment Manager and Advisor Performance

The Investment Advisory Committee shall recommend to the Public Treasurer the engagement, termination, or continuation of external managers and investment advisor. Primary review of external manager performance will be the responsibility of the investment advisor. Primary review of investment advisor performance will be the responsibility of the Investment Advisory Committee.

XII. References

* Uniform Prudent Management of Institutional Funds Act (UPMIFA), Title 51, Chapter 8.
* Utah State Board of Regents Policy R-541, Management and Reporting of Institutional Investment.

APPENDIX A

PERMISSIBLE ASSET CLASSES

Asset Class	Broad Asset Class
Public Domestic Equity	Global Equity
Public Foreign Equity	Global Equity
Emerging Market Equity	Global Equity
Investment Grade Bonds	Inv. Grade Fixed Income
TIPS	Inv. Grade Fixed Income
Cash/Short Duration Bonds	Inv. Grade Fixed Income
High Yield Bonds	Opportunistic Fixed Income
Bank Loans	Opportunistic Fixed Income
Emerging Markets Debt	Opportunistic Fixed Income
Private Equity	Alternative Asset
Real Estate	Alternative Asset
Natural Resources	Alternative Asset
Infrastructure	Alternative Asset
Commodities	Alternative Asset
Hedge Funds	Alternative Asset

APPENDIX B

BROAD ASSET ALLOCATION TARGETS

	Target* (%)	Range (%)
Global Equity	47	35-55
Investment Grade Fixed Income	12	10-20
Opportunistic Fixed Income	12	10-20
Alternative Assets	29	10-30

* Targets may be revised from time-to-time by recommendation of the Investment Advisory Committee within the established policy range.