Approved by the Brockport Foundation Board of Directors
January 2016

BROCKPORT FOUNDATION

Est. 1976

Statement of Investing and Spending Policy

I. Introduction

The Brockport Foundation's (the "Foundation") mission is to support and promote the activities and programs of The College at Brockport, State University of New York (the "College"), which includes managing gifts and grants on the College's behalf. This Statement of Investment and Spending Policy (the "Policy") is intended to provide direction in the governance and overall management of the Foundation's Endowment Portfolio (the "Portfolio") as well as formalize the Foundation's long-term strategy for meeting its fiduciary obligations with respect to the management and investment of the Portfolio, consistent with applicable New York State law.

This Policy will be reviewed at least annually by the Board and revised or reaffirmed as appropriate.

For purposes of this Policy, the Portfolio means all institutional funds including true donor-restricted endowment funds, quasi-endowment funds and similar investment of funds of the Foundation.

II. Delegation of Investment Responsibilities

A. <u>Responsibilities of the Board of Directors</u>

The members of the Board of Directors (the "Board") are fiduciaries charged with the oversight of the management of the assets of the Portfolio. As such, the Board is authorized to delegate certain responsibilities to the Finance and Investment Committee (the "Committee"), as well as professional experts in various fields. The Board shall discharge its duties in accordance with the New York Not-For-Profit Corporation Law and the Certificate of Incorporation and By-Laws of the Foundation (available through the Division of Advancement Office). The specific responsibilities of the Board relating to the management of Portfolio assets include but are not limited to:

1. projecting the Foundation’s financial needs, and communicating such needs to the Committee on a timely basis;

2. approval of this Policy; and

3. approval of expenditures not included under spending formula withdrawals.

B. Responsibilities of the Committee

The Committee is charged with the responsibility for managing the assets of the Portfolio. The Committee members shall discharge their duties solely in the interests of the Foundation, in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. The specific responsibilities of the Committee include but are not limited to:

1. establishing for Board’s approval reasonable and consistent investment objectives, policies and guidelines that will direct the investment of the Portfolio assets;

2. determining the appropriate risk tolerance and investment time horizon for the Portfolio assets and communicating these decisions to the appropriate parties;

3. selecting qualified investment professionals, to the extent it is deemed necessary, including such Investment Manager and Investment Advisor as may be determined;

4. evaluating on a regular basis the performance of any Investment Manager to assure adherence to policy guidelines and monitoring progress toward achieving investment objectives; and

5. developing and enacting proper control procedures, for example, replacing Investment Managers due to a fundamental change in the firm’s investment management process, a failure to comply with established guidelines or significant changes in the firm’s personnel.

The Committee will not reserve any control over direct investment decisions, with the exception of specific limitations described in this Policy. Investment Managers will be held responsible and accountable to achieve the Investment Objectives herein stated. While it is not believed that the limitations will hamper Investment Managers, each Investment Manager should request from the Committee any modifications deemed appropriate.

C. Responsibilities of the Investment Manager

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints and philosophies as outlined in this Policy. In addition, Investment Managers are expected to conduct themselves with the highest degree of professionalism. Specific responsibilities of the Investment Manager include but are not limited to:

1. discretionary investment management, including decisions to buy, sell or hold individual securities and to alter asset allocation within the guidelines established in this Policy;

2. reporting, on a timely basis, quarterly investment performance results;

3. timely communication of any major changes to economic outlook, investment strategy, or any other factors affecting the implementation of the investment process or the progress toward meeting performance objectives;

4. informing the Committee of any qualitative changes to the investment management organization such as changes in portfolio management personnel, ownership structure and investment philosophy or investment discipline;

5. timely communication of trading information to the Committee; and

6. conforming to the guidelines outlined in the manager addendum contained herein.

D. Foundation Staff

The Foundation staff, including the President of the Foundation, will partner with the Committee in adhering to the Foundation's mission by being responsible for day-to-day investment functions as directed by the Committee and the Investment Manager and/or Advisor.

III. Investment Management Standards of Conduct

The following standards will be met in the management of the Fund:

1. Subject to the intent of a donor expressed in any gift instrument, the Board, in managing and investing the Portfolio, shall consider the purposes of the Foundation and the purposes of the Portfolio.

2. In addition to complying with the duty of loyalty imposed by law, each person responsible for managing and investing the Portfolio shall manage and invest in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. A person who has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing the Portfolio.

3. In managing and investing the Portfolio, the Board and Investment Manager and/or Investment Advisor may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the Foundation and the skills available to the Foundation. The Board and Investment Manager and/or Investment Advisor shall make every reasonable effort to verify the facts relevant to the management and investment of the Portfolio.

4. Except as otherwise provided by a gift instrument, the following apply:

    a. In managing and investing the Portfolio, the following factors, if relevant, will be considered:
        i. general economic conditions;
        ii. the possible effect of inflation or deflation;

iii. any expected tax consequences, if any, of investment decisions or strategies;
iv. the role each investment or course of action plays within the overall investment portfolio of the Portfolio;
v. the expected total return from income and the appreciation of investments;
vi. the needs of the Foundation and the Portfolio to make distributions and preserve capital;
vii. other resources of the Foundation; and
viii. any specific asset's special value, or special relationship, if any, to the purposes of the Portfolio.

b. Management and investment decisions about an individual asset must be made, not in isolation, but rather in the context of the portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Portfolio and the Foundation.

c. The Foundation shall diversify the investments of the Portfolio unless it determines that, due to special circumstances, the purposes of the Portfolio are better served without diversification. The Committee shall review a decision not to diversify as frequently as circumstances require, but at least annually.

d. All marketable securities received by the Foundation, whether as a gift or as a distribution from a private equity investment, shall be immediately liquidated with the proceeds invested in accordance with this Policy.

e. Retention of gifted property should be evaluated annually to ensure it continues to meet with the mission of the Foundation.

5. This Policy sets forth guidelines on investments and delegation of management and investment functions in accord with prudent investor standards and the standards of the New York Prudent Management of Institutional Funds Act (NYPMIFA).

IV. Investment Philosophy

The Foundation will maintain an investment program for the Endowment Portfolio, which seeks to achieve the Policy goals while maintaining acceptable risk levels. The investment approach will emphasize the need to maintain a well-diversified investment program through the long-term allocation of Portfolio assets among several asset classes. Within each asset class the Committee will select and delegate investment discretion to a professional Investment Manager(s) whose various styles are complementary to one another (where applicable).

V. Investment Objectives

The Portfolio's primary objective is to preserve the real (inflation-adjusted) purchasing power of the Portfolio while providing a relatively predictable, constant and stable (in real terms) stream of earnings for current spending. The cash flow to meet current spending will arise from two sources: 1) contributions and 2) the Portfolio's total investment return. Within this framework, the Portfolio seeks to earn an annual average total return, over a full market cycle (designated as 20 quarters) net of investment management fees, equal to inflation plus 4.5% to 5%. Inflation will be measured by the Consumer Price Index (CPI).

The Portfolio's Policy is based on total return, which is the sum of interest, dividends, and capital appreciation, less all investment management costs. Therefore, capital appreciation may be realized to meet spending requirements if current income falls short of the amount determined by the Foundation's spending policy. However, asset allocation and investment structure decisions should account for the need for current income.

VI. Investment Management

The Committee will retain the services of Investment Managers to invest according to the stated policy guidelines and objectives of the Policy. Investment Managers will be screened for superiority of qualitative characteristics such as investment process and discipline, personnel and ownership structure. Quantitative characteristics such as absolute returns and risk-adjusted performance, consistency of returns and performance in both up and down markets also will be analyzed. The search process ultimately will provide a working list of managers from which a final decision will be made by the Board.

The Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in: selecting, continuing or terminating an Investment Manager, including assessing the Investment Manager's independence, including any conflicts of interest such Investment Manager has or may have establishing the scope and terms of the delegation, including the payment of compensation, consistent with the purposes of the Foundation and the Portfolio; and monitoring the Investment Manager's performance and compliance with the scope and terms of the delegation. In performing a delegated function, an Investment Manager owes a duty to the Foundation to exercise reasonable care, skill and caution to comply with the scope and terms of the delegation.

VII. Evaluation of Managers

Investment Managers shall be reviewed annually regarding performance, personnel, strategy, research capabilities, organizational and business matters and other qualitative factors that may impact their ability to achieve the desired investment results.

Performance reports generated by the Investment Manager shall be compiled at least quarterly and communicated to the Committee for review. The Investment Manager shall provide the Committee with an updated list of all relevant benchmarks on an annual basis to coincide with the commencement of the Foundation's fiscal year. Rolling five (5) year periods will be used to determine whether the Portfolio's objectives are being met. To aid in the evaluation of Endowment Portfolio trends, quarter, year-to-date, one year and three year period ended returns also will be reported. The investment performance of the total Endowment Portfolio, as well as individual Investment Managers, will be measured against commonly-accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives set forth in this Policy. The Committee intends to formally evaluate the Portfolio every three years, but will closely monitor performance annually.

All Investment Managers will be formally reviewed at or about their three year anniversary and every three years thereafter. The Committee reserves the right to terminate an Investment Manager for any reason including, but not limited to, the following:

1. investment performance significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results;

2. failure to adhere to any aspect of this policy, including communication and reporting requirements; and

3. significant qualitative changes to the investment management organization of the Investment Manager.

VIII. Investment Advisor

The Foundation may retain the services of an independent Investment Advisor for the purpose of assisting the Committee in developing and then attaining the objectives of the Foundation. The Investment Advisor will assist in establishing objectives offering alternative models of asset allocation, identifying appropriate managers of funds, producing timely quarterly reports that monitor performance of individual managers against similar managers as well as performance of the entire fund against its objectives and against other appropriate indices. The Investment Advisor also will provide consultation on revisions and modifications as appropriate.

IX. Target Asset Allocation

The long-term strategic asset allocation of the Portfolio is below. Based on historical performance, this mix is expected to produce suitable patterns of performance, with fluctuation levels, which it deems acceptable over time.

The Investment Managers from time to time may vary the actual percentages where, in its discretion, it deems the variation desirable to achieve the Portfolio goals. However, the variation of total equities (target 60%), total fixed income (target 35%) and real estate (5%) should be maintained within plus/minus 5 percentage points.

Asset Class	Target
Equities	60.00%
Large-Cap	36.0%
Mid-Cap	9.00%
Small-Cap	6.00%
International	9.00%
Real Estate	5.00%
Fixed Income/Cash	35.00%

X. Portfolio Guidelines

In order to provide the Investment Advisor (if any) and the Investment Managers with the ability to invest in various types of assets, they are further guided by the following definitions and delineations of activities:

1. Equities - The purpose of the Foundation's equity investment portfolio is to provide total return. It is expected that the equities will, on balance, achieve returns commensurate with the risk assumed.

2. Fixed Income Securities - The objective of the Foundation's fixed income investments is to produce current income and cushion the fund against excessive stock market volatility. The portfolio will attempt to match the duration of the overall market and may be invested in government, agency or corporate bonds.

3. Real Estate Securities - Diversified exposure to the real estate sector of the capital markets will be achieved via the ownership of real estate investment trusts (REITs).

4. Cash and Cash Equivalents - All cash wherever and whenever possible should be invested in interest bearing securities.

5. Other Assets – The Committee may consider other investments when the need occurs.

6. Prohibited Securities -- Any investment strategy, security, scheme, or moneymaking enterprise that does not meet the NYPMIFA standards is prohibited. In addition, the Foundation will not engage in the following types of securities transactions:
    a. selling securities short;

    b. purchasing securities on margin or using leverage;

    c. writing, purchasing, or selling naked options;

    d. derivative securities, except (a) mutual funds as provided above and (b) hedging transactions, limited to exposure, for principal protection.

    e. tax-exempt securities, warrants, unregistered securities.

    f. hedge funds

    g. future contracts

No single investment in the Portfolio may represent more than 7% of the total Portfolio with the exception of pooled investment vehicles (mutual funds) and securities backed by the U.S. Government. In addition, over a five-year period and on an annual basis, the Committee will examine the following two indicators for information and guidance:

1. The median investment performance of the endowment funds of similar SUNY colleges, as that data is available.

2. The median investment performance of the endowment funds of similar college foundations as reported by the National Association of College and University Business Officials (NACUBO).

XI. Time Horizon

The time horizon applicable to this Policy is 10 to 15 years. This time horizon will generally be used for making decisions about asset allocation; however, such decisions may be reviewed and revised whenever warranted by general economic conditions or the investment performance of specific asset classes. The Portfolio's performance will be monitored regularly and typically be judged for periods equal to the lesser of a full market cycle or five years.

XII. Risk

In general, the term "risk" as used in this Policy will mean the degree of exposure to unacceptable outcomes from the investment program. For the Portfolio major unacceptable investment outcomes are:

1. Prolonged negative returns for periods longer than 3 to 5 years.

2. Greater than 30% market value decline over a period of 24 months.

3. Disproportionately high volatility-to-expected return ratio.

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the Policy for the Portfolio is the determination of an appropriate risk tolerance. The three primary factors that affect this determination are 1) the financial ability to accept risk (specifically, dramatic negative short term performance), 2) the ability to tolerate risk, and 3) the long-term investment return requirements.

The Foundation, in determining the appropriate asset allocation for the Portfolio, reviewed the benefits and risks of investing in the higher returning equity investments versus investing in the lower returning but less volatile fixed income investments. Based on historical market data, and given the Portfolio's long-term investment horizon, it was determined that a significant investment in equities was warranted. Furthermore, it was determined that the Portfolio should not be managed with the primary objective of avoiding negative annual returns. Such a focus would significantly reduce the Portfolio's ability to satisfactorily meet its long-term spending needs on an inflation-adjusted basis. To help mitigate the short-term volatility of the Portfolio, the Foundation embraces a broadly diversified investment in domestic equities, international equities, real return assets and fixed income securities. This broad diversification is expected to reduce the Portfolio's volatility versus a less diversified approach.

XIII. Unacceptability of Market Timing

The Foundation has taken into account considerable evidence that a stable and prudent asset allocation, combined with the passage of time, is likely to provide a favorable outcome to an investment portfolio. The Board further recognizes the return objectives and level of risk exposure outlined in this Policy could be negatively impacted if the Portfolio allocation guidelines are not followed. This Policy, therefore, does not provide for the introduction of short-term judgments, either to inject unplanned risk, or conversely, to reduce intended market exposure. Accordingly, the Foundation recognizes that adherence to this Policy will occasionally appear to be either too risky or too conservative for current market conditions. However, the Foundation also recognizes there is no known source for consistently reliable short-term forecasts of the capital markets' movement or the magnitude of that movement.

XIV. Rebalancing

Because different asset classes will perform at different rates, the Investment Manager and/or Advisor will keep close scrutiny on the asset allocation shifts caused by performance. Accordingly, the Investment Advisor will review the relative market values of the asset segments, and will have the discretion to rebalance as needed. To the extent that adequate rebalancing among asset categories cannot be effected via the allocation of new contributions, the Investment Advisor may re-direct monies from one asset category to another as market fluctuations skew the allocation away from target.

XV. Spending Philosophy

The spending philosophy was adopted by the Committee to preserve the real (inflation adjusted) purchasing power of the portfolio while providing a relatively predictable, constant and stable (in real terms) stream of earnings for current use. "Spending" is defined as the funds made available each fiscal year from Foundation funds for College programs, Foundation operational expenses, donor restrictions and other obligations exclusive of management, brokerage and custodial fees.

XVI. Spending Objectives

Distributions from the Portfolio are made using the total return method. Under the total return method, distributions consist of interest, dividends and realized and unrealized gains. When making a determination to appropriate or accumulate, the Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:

1. the duration and preservation of the Portfolio;

2. the purposes of the Foundation and the Portfolio;

3. general economic conditions;
4. the possible effect of inflation or deflation;
5. the expected total return from income and the appreciation of investments;
6. other resources of the Foundation;
7. where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the Portfolio, giving due consideration to the effect that such alternatives may have on the Foundation; and
8. the Policy of the Foundation.

For each determination to appropriate for expenditure, the Foundation shall keep a contemporaneous record describing the consideration that was given by the Committee to each of the factors enumerated above.

The target annual distribution rate shall be 5% of the average market value of the endowment for the preceding 20 quarters. It is the responsibility of the Committee to oversee management of the Portfolio in ways commensurate with this spending policy. Distribution of spending income will be reviewed annually and made according to the following:

1. Provisions must be made with the Investment Advisor for timely and regular distributions as needed by the Foundation.
2. Total return results that exceed actual distribution of allocated spendable income normally shall be reinvested and considered principle for all future computations and distributions.
3. When total return is less than allocated spendable income, distributions will be made from Portfolio assets that are unencumbered for such purposes, such as unspent total return of prior years.

Under NYPMIFA, an appropriation of an amount greater than 7% percent of the fair market value of a specific endowment fund, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than five (5) years immediately preceding the year in which the appropriation for expenditure is made, creates a rebuttable presumption of imprudence. For a specific endowment fund in existence for fewer than five years, the fair market value of the specific endowment fund must be calculated for the period the specific endowment fund has been in existence.

XVII. Operating Funds

Operating funds consist of cash balances and other amounts deemed necessary to meet current cash needs. Such funds shall be productively invested to the extent practical. The investment objectives for the operating funds are to provide the liquidity necessary for operational commitments, to provide current earnings for operation of the Foundation and distribution to the

College. Any amounts in excess of current cash needs, as determined by the President of the Foundation and/or Treasurer, will be invested in accordance with written guidelines and performance criteria to be approved by the Committee.

XVIII. Proxy Voting of Portfolio Securities

The investment managers shall vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Portfolio set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related hereto.

XIX. Exceptions

All exceptions to this policy must be approved in advance by a majority of the Committee and ratified by a two-thirds vote of the Foundation Board at its next regularly scheduled meeting.

XX. Conflict of Interest

It is the policy of the Foundation to avoid conflicts of interest in its operations and in the selection of Investment Managers or funds. Therefore, administrative officers, Directors and members of the Committee shall disclose any financial relationship with any Investment Manager being considered. Similarly, the Investment Advisor (if any) shall have no financial relationship with any Investment Manager or fund serving the Foundation.