Section: 40.2.14

Section Title: Fiscal Management

Policy Name: Investment Policy

Formerly Book: n/a

Approval Authority: The Board of Governors with the consent of the Board of Trustees

Responsible Executive: Senior Vice President for Finance and Treasurer

Responsible Office: Office of Finance and Treasurer

Originally Issued: 5/8/2002

Revisions: 7/17/2002; 11/21/2003; 10/6/2005 BOG with 10/27/2005 BOT consent; 9/27/2006 updated administrative titles; 10/26/2006 BOT with 12/8/2006 BOG consent to incorporate the “Policy Statement Regarding the Humanitarian Crisis in Darfur” into this Investment Policy; 06/25/2009 BOG with BOT consent (Note: Changed policy name from Investment Objectives and Guidelines Policy to Investment Policy); 04/13/2012 changed to reflect change to spending policy. 05/08/2013 changed to impermissible investments, make slight corrections to Appendix B and Appendix C, and to change the spending policy, this final change effective July 1, 2013. 10/10/2013 (Updated titles). 10/9/2014 changed the spending policy, updated manager limitations and asset class targets.

Errors or changes? Contact: The Office of Treasury Operations at 848-445-3787

1. **Policy Statement**
   These objectives and policies are intended to govern the overall management of the university’s pooled endowment funds.

2. **Reason for Policy**
   To define the investment process, policies, guidelines and objectives of the Endowment; create a framework from which the Investment Committee can evaluate performance, explore new opportunities, and make recommendations to the Boards; and, provide guidance for, expectations of, and limitations on all parties bearing responsibilities related to the Endowment.

3. **Who Should Read This Policy**
   Members of the university community with a need to know the university’s policies on endowment investments.

4. **Related Documents**
   None

5. **Contacts**
   a. Office of Treasury Operations
      848-445-2788
   b. Office of Finance and Treasurer
      848-932-4300
6. The Policy

40.2.14 INVESTMENT POLICY

STATEMENT OF INVESTMENT POLICY

The following investment objectives and guidelines are intended to govern the overall management of the university's Pooled Endowment funds (the Board of Governors' Long Term Fund and the Board of Trustees' Long Term Fund, collectively "the Endowment").

I. ROLES AND RESPONSIBILITIES

A. Board of Governors and Board of Trustees

Members of the Boards, ultimately, are responsible as fiduciaries for managing the Endowment. Therefore, the Boards’ specific responsibilities are as follows:

1. Oversee activities of the Joint Committee on Investments (hereinafter the “Investment Committee”) as they relate to the investment of the university’s endowment; and

2. Delegate to the Chairs of the Boards the appointment of Investment Committee members.

B. Investment Committee

The Investment Committee’s responsibilities are as follows:

1. Set overall policies for the investment of the university’s endowment.

2. Approve and annually review/reapprove the written Investment Policy. Ensure that the Investment Policy is being implemented.

3. Establish the university’s spending rate and approve the university administration’s calculation thereof.

4. Establish the institution’s real return objective, defined as the sum of the spending rate, management costs, and desired growth rate, if any.

5. Establish appropriate implementation guidelines, to include the following:

   a. time horizon for the portfolio;
   
   b. acceptable level of volatility for the portfolio;
   
   c. acceptable asset classes for investment (e.g. U.S. large-cap stocks, U.S. small-cap stocks, emerging market stocks, etc.);
   
   d. range of allocation of assets among the available asset classes (e.g. 15% to U.S. large-cap stocks, 10% to U.S. small-cap stocks, etc.).

6. With the university administration, select and evaluate the investment consultant.

7. In coordination with the university administration and the investment consultant, establish investment practices, including the determination of:

   a. Determine criteria for hiring and terminating investment managers;
   
   b. Determine distribution of assets among investment managers; and
   
   c. Determine the portfolio’s rebalancing rules.

8. Review and evaluate investment results in the context of predetermined performance standards.

9. In coordination with university administration and the investment consultant, review the performance of the individual fund managers, and hire and terminate investment managers as appropriate.
10. Ensure that adequate and appropriate research is being conducted concerning the future performance of the portfolio and its investments.

11. Confer at least quarterly to review the performance of the portfolio and the managers; interface with the university administration and investment consultant to address current issues; and develop recommendations for policy changes to be reviewed and presented for adoption to the Boards.


13. Annually, review the level of expenses incurred.

14. Avoid conflicts of interest and prohibited transactions.

15. Monitor annually the performance of all endowment assets not monitored by the consultant.

C. University Administration

The university administration’s responsibilities are as follows:

1. Implement the decisions reached by the Investment Committee.

2. Invest new gifts made to the Endowment according to established guidelines.

3. Sell assets as needed to fund the spending allowance.

4. Rebalance the portfolio as directed by the Investment Policy.

5. Serve as the primary communication link between the Investment Committee and the investment consultant.

6. Prepare and annually present performance and evaluation reports on all endowment assets not monitored by the consultant.

D. Consultant

The consultant’s responsibilities are as follows:

1. Assist in the development and implementation of investment policies, objectives and guidelines.

2. Prepare an asset allocation analysis and, at least annually or more often if market conditions merit, recommend asset allocation strategy modifications with respect to the Endowment’s objectives.

3. Review investment managers for both quantitative and qualitative aspects, including the due diligence for and the on-going monitoring of existing managers; search for new managers; and make recommendations regarding the hiring or firing thereof.

4. Prepare and present quarterly performance evaluation reports in accordance with Association of Investment Management and Research promulgated standards.

5. Annually, at a minimum, complete a full “look-through” analysis of the portfolio’s liquidity.

6. Attend Investment Committee meetings to present evaluation reports on a quarterly basis (attendance at other meetings is on an “as needed” basis).

7. Review contracts and fees for both current and proposed investment managers and custodians.

8. Review, develop and, when necessary, educate Committee members on special investment strategies that complement existing asset classes or strategies to be considered by the Investment Committee and university administration.

9. Communicate investment policies and objectives to the managers, monitor their adherence to such policies and report all violations.
10. Notify the Investment Committee and university administration of any material changes in ownership of the consultant and of any changes in personnel who are integral in assisting the university.

11. Assist the Investment Committee and university administration in special tasks relating to the Endowment.

12. Notify the university administration and Investment Committee immediately of any litigation or violation of securities regulations in which any Investment Manager utilized by the Endowment is involved.

13. Notify the university administration and Investment Committee of any significant changes in portfolio managers, personnel or ownership of any investment management firm utilized by the Endowment.

14. Adhere to all regulatory agency guidelines.

E. Investment Managers

The investment managers’ responsibilities are as follows:

1. Invest assets under their management according to the mandate presented and approved at time of investment.

2. Exercise discretionary authority over assets entrusted to them subject to the manager guidelines provided herein and separately provided.

3. Provide written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics no less frequently than on a quarterly basis in addition to other information as requested by the Investment Committee, university administration or the investment consultant.

4. Vote (and annually report to university administration) proxies vigorously in the best interest of the Endowment.

5. For those investment manager/products that are registered with the SEC, they must annually provide an updated copy of the investment advisor’s form ADV Part II.

6. Unless otherwise stated in this or supplemental documents, decisions as to individual stock selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to the manager’s discretion, subject to the usual standards of fiduciary prudence.

F. Custodian

The custodian’s responsibilities are as follows:

1. Within 15 days following the end of each month, provide the following reports:
   a. Statement of all securities and other assets on hand;
   b. Statement of all property received representing contributions to the accounts;
   c. Statement of all sales, redemptions, and principal payments;
   d. Statement of all distributions from the account;
   e. Statement of all expenses paid;
   f. Statement of all purchases; and
   g. Statement of all income.

2. Maintain an account for each Investment Manager of the Endowment.

3. Provide all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, and
daily investment of uninvested cash, etc.; effect trades, if applicable; and manage securities lending program, if applicable.

4. Prepare additional accounting reports as requested by the university administration or investment consultant.

5. Annually, provide an electronic copy of the custodian's SAS 70 to the university's external auditor.

II. INVESTMENT POLICIES AND OBJECTIVES

A. General Investment Philosophy

Providing for future spending needs while meeting current spending needs is the objective of the Endowment.

1. **Time Horizon:** The Endowment has an infinite life.

2. **Return:** The long-term minimum need of the Endowment is to achieve a total return averaging at least the spending rate of 4.275% plus inflation, fees, and costs. Returns experienced in excess of the need provide for the long-term growth of the Endowment. The annual spending policy is to spend an amount not to exceed 5.225% of a trailing 13-quarter average of the Endowment's market values. This 5.225% includes a 0.95% allocation for foundation administration expenses.

3. **Risk:** The overall level of risk in the university's investment portfolio will be primarily mitigated by attention to asset allocation. The focus is on overall portfolio risk, not risk related to specific asset classes.

4. **Taxes:** The Endowment is owned by a tax-exempt organization.

5. **Liquidity:** Due to a long-term investment horizon and below average liquidity needs of the Endowment, the Investment Committee will allow for an above-average level of risk and illiquidity of the portfolio. At times, cash may be required to satisfy the needs of the Endowment, yet there is no defined allocation to cash in the Investment Policy Allocation. Therefore, it is expected that the Endowment should have sufficient liquid assets to meet all spending and capital call needs.

B. Return Measurement Objectives

The investment objectives of the Endowment are based upon a long-term investment horizon allowing interim fluctuations to be viewed in an appropriate perspective. While there cannot be complete assurance that the defined objectives will be realized, it is believed that the likelihood of their realization is enhanced by the Investment Policy Statement of the Endowment.

Over time, the Endowment will aim to achieve the return goal while maintaining acceptable risk levels. To accomplish this goal, the Endowment will diversify its assets among several asset classes. Appendix A provides permissible asset classes and appropriate index measures of these classes. Active managers will be expected to provide returns greater than or equal to their appropriate benchmark while utilizing acceptable risk levels.

All return objectives described are understood to be net of (after) management expenses.

1. Investment portfolio assets should return, over the time horizon, an annualized nominal rate of return greater than or equal to the long-term return objective plus the rate of inflation, after all management expenses.

2. Investment portfolio assets should return, over rolling twelve-month periods, a nominal rate of return greater than or equal to a composite index created by combining various indices (Appendix A) in the same proportion as the Endowment's policy allocation (described in the Asset Allocation section II.E).
3. Each investment manager should return, over rolling twelve-month periods, a net nominal rate of return greater than or equal to the appropriate market index for that asset class (Appendix A), with not more than commensurate risk.

C. Volatility and Risk

The return objectives can be achieved while assuming acceptable risk levels commensurate with “market” volatility. “Market” volatility is defined as the trailing three-year standard deviation of investment returns (based on monthly data) of the benchmark indices deemed appropriate.

The risk is defined as the probability of failing to meet the Endowment’s objectives over the time horizon. Therefore, in order to minimize the probability of failure, thereby minimizing risk, the following variables should be considered in all aspects of the decision-making process with regards to the Endowment’s investable assets:

1. Probability of Missing the Goal Return
2. Inflation
3. Asset/Style Allocation

D. Spending Policy

The purpose of the Endowment Fund is to provide funding, in perpetuity, for programs of the university. The amount of this funding each year, referred to as the spending allowance, is determined either in accordance with donor-designated rules, or in the absence of such rules, by the Boards’ Spending Policy. The Boards have selected a spending rate of 4.275% of the average of the trailing 13 quarter end Endowment market values as being appropriate for sustaining the purchasing power of the Endowment and yet still providing the funding for which the Endowment was established. The annual spending policy is to spend an amount not to exceed 5.225% which includes a 0.95% allocation for foundation administration expenses. This spending rate will be reviewed periodically in light of evolving trends with respect to investment returns and the rate of inflation. Adjustments will be made when appropriate. When considering the investment performance of the Endowment, the Boards will consider the total returns of the Endowment, including dividends on stock, interest on fixed-income securities, and capital gains, both realized and unrealized.

E. Asset Allocation

The single most important decision, which affects the Endowment, is the asset allocation decision. Investment research has determined that a significant portion of an Endowment’s investment behavior can be attributed to (1) the asset classes/styles, which are employed by the Endowment; and (2) the weighting of each asset class/style. Given its importance, the policy asset allocation will be reviewed at least annually and revised as necessary.

The target asset allocation is based on a comprehensive allocation study completed by the investment consultant. The target asset allocation of the Endowment is designed to give balance to the overall structure of the Endowment’s investment program over a long-term horizon. Asset allocation decisions will not be based on market timing. However, some factors may impact the policy allocation, thereby requiring an asset allocation review and possible rebalancing. Some of these factors include a change in the assessment of the intermediate or long-term outlook for different types of asset classes and styles or divergence in the performance of the different asset classes and styles. The current target and ranges for the Endowment are illustrated in Appendix B.

F. Portfolio Rebalancing

Since asset allocation is the most critical component of the Endowment’s return, the portfolio will be rebalanced at least annually. In addition, the Endowment will be
rebalanced in the event any asset class allocation differs from policy by more than 20% of the target weight, but with a 2% minimum deviation threshold (before rebalancing is required). Alternative asset classes may require a longer period of time to achieve target allocation.

G. Permissible Investments

The policy asset allocation of the Endowment is expected to include a wide range of asset classes. Their relative comparative indices are displayed in Appendix C. The permissible asset classes are as follows:

- Domestic Large-, Mid-, Small-, or All-Capitalization Equity
- International Large-, Mid-, or Small-Capitalization Equity
- International Emerging Markets Equity
- Domestic and International Fixed Income
- Inflation Protected Bonds
- Senior Bank Loans
- Domestic and International High-Yield Bonds
- International Emerging Markets Fixed Income
- Cash Equivalents
- Real Estate Investment Trusts
- Commodities Futures and Funds
- Infrastructure Investments
- Hedge Funds
- Private Equity Investments
- Illiquid Real Asset Investments
- Other investments as deemed appropriate by the Investment Committee in consultation with the university administration and the investment consultant.

H. Impermissible Investments

From time to time, the Joint Committee on Investments may decide that the university does not desire to hold investments in specifically designated companies, types of companies, or companies located or doing business in certain countries or regions. Generally speaking, the policy of the JCOI will be consistent with restrictions in investments within New Jersey Statutes 52:18A-89. Should the Governing Boards of the university expressly approve any restrictions on investment of the Endowment, such resolutions will be included as Appendix D within this policy.

I. Liquidity

1. Private Equity, Real Assets – Many of the venture capital, private equity, real estate, and commodity investments are illiquid with a general 10-12 year time horizon. These longer lived assets have the potential to achieve superior performance relative to other equity markets over long periods of time because of the illiquidity premium of these investments. It is noted that these illiquidity premiums do fluctuate over time. With each investment, the Committee acknowledges that they expect to be unable to terminate such illiquid managers, but could sell undesirable portfolios on a secondary market should a buyer exist.

2. Hedge Funds – The managers grouped in this asset class may have temporarily illiquid investments from time to time. These investments usually are held in
sidepocket accounts, illiquid securities owned in a separate ownership pool from the rest of the fund. Ownership in a sidepocket is fixed at the point the investment is initiated, and new investors do not participate in pre-existing sidepockets. Due to the illiquid nature of sidepocket investments, the manager does not receive an annual incentive allocation on the sidepocket, but only earns an incentive fee when an investment in a sidepocket is liquidated. Also, because of the illiquid nature of the investments, participants in a sidepocket cannot redeem their interest in the sidepocket until the underlying investment becomes liquid. When a sidepocket investment is liquidated, the proceeds will be moved out of the sidepocket into the non-sidepocket accounts of the investors. These investments are expected to be accretive to return or they would not be included. It is noted that these investments could hinder the Endowment's ability to withdraw capital during times of great stress.

J. Investment Policies & Performance Goals for Investment Managers

The performance goals and constraint guidelines placed on individual managers within specific asset classes are listed in Appendix C. Investment managers may engage in securities lending to broker / dealers as a means of enhancing income. The Investment Committee shall continue to review the relative advantages of passive versus active management in the context of reduced management expenses; stable performance; and constant, complete exposure to the particular asset class with regard to the excess return provided by the individual manager.
<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>COMPARATIVE INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td></td>
</tr>
<tr>
<td>U.S. Large Stocks</td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td>U.S. Mid Stocks</td>
<td>Russell 2500</td>
</tr>
<tr>
<td>U.S. Small Stocks</td>
<td>Russell 2000</td>
</tr>
<tr>
<td>International Equity</td>
<td></td>
</tr>
<tr>
<td>Int'l Large Stocks</td>
<td>MSCI EAFE</td>
</tr>
<tr>
<td>Int'l Small Stocks</td>
<td>EMI-EPAC</td>
</tr>
<tr>
<td>Emerging Mkt Stocks</td>
<td>MSCI EMF Index</td>
</tr>
<tr>
<td>Fixed Income</td>
<td></td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td>Lehman Aggregate Bond</td>
</tr>
<tr>
<td>Int'l Fixed Income</td>
<td>Lehman Aggregate Bond</td>
</tr>
<tr>
<td>Inflation Protected Bonds</td>
<td>Citigroup World Gov't Bond</td>
</tr>
<tr>
<td>Senior Bank Loans</td>
<td>Credit Suisse Leveraged Loan</td>
</tr>
<tr>
<td>Emerging Mkt Bonds</td>
<td>JPM Emerging Mkt Bond</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>U.S. 91 Day Treasury Bills</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Venture Economics All PE Index</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>HFR Fund of Funds</td>
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<tr>
<td>Real Assets</td>
<td></td>
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<tr>
<td>Illiquid Real Estate</td>
<td>NCREIF Townsend Blended Index</td>
</tr>
<tr>
<td>Illiquid Natural Resources</td>
<td>Mercer Illiquid NR Index</td>
</tr>
<tr>
<td>Infrastructure Funds</td>
<td>UBS World Infrastructure and Utility Index</td>
</tr>
<tr>
<td>Real Estate Investment Trusts</td>
<td>FTSE EPRA/NAREIT Developed Index</td>
</tr>
</tbody>
</table>
APPENDIX B
CURRENT TARGET AND RANGES FOR THE COMBINED RUTGERS UNIVERSITY PORTFOLIOS

As of August 2014

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>TARGET (%)</th>
<th>RANGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. S. Equity</td>
<td>18%</td>
<td>10-30%</td>
</tr>
<tr>
<td>Global ex U. S. Equity</td>
<td>15%</td>
<td>10-30%</td>
</tr>
<tr>
<td>Fixed Income and Cash</td>
<td>12%</td>
<td>25%</td>
</tr>
<tr>
<td>Marketable Alternative Assets</td>
<td>25%</td>
<td>10-35%</td>
</tr>
<tr>
<td>Venture Capital &amp; Private Equity</td>
<td>15%</td>
<td>0-20%</td>
</tr>
<tr>
<td>Inflation Hedging</td>
<td>15%</td>
<td>10-20%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
APPENDIX C
INVESTMENT POLICIES AND PERFORMANCE GOALS FOR INVESTMENT MANAGERS

All Traditional Managers

1. Active managers shall be terminated if the net performance and/or the investment’s realized standard deviation ranks the manager in the bottom quartile of a relative peer universe over a five-year time period.

2. Index managers shall be terminated if the realized standard deviation of the investment places the manager in the bottom quartile of a relative peer universe over a five-year time period.

3. No manager shall be permitted to use margin or to otherwise leverage the portfolio, without the prior written consent of the Investment Committee.

Equity

1. The maximum weighting (cost basis) in any one company for active managers is 10%.

2. No single sector shall represent more than 35% of the market value of the portfolio.

3. The maximum allocation to cash, at any time, will be 5% unless written permission is communicated to the consultant by the Investment Committee.

4. Trading and Execution: Managers should execute trades on a competitive basis, considering commission, execution price, quality/timing of the trade as well as market impact, as compared to relative size Endowments.

5. The use of currency futures to enhance performance and/or hedge currency exposure by international and/or global managers is at the discretion of the manager.

Fixed Income

1. The maximum weighting (cost basis) in any one security for active managers is 10%. This does not apply to U.S. government and agency issues.

2. The use of currency futures to enhance performance and/or hedge currency exposure by international and/or global managers is at the discretion of the manager.

Alternative Asset Managers (Hedge Funds, Real Assets, Private Equity)

1. Active managers shall be terminated if the standard deviation of returns is not within expectation as determined at the time of investment and/or the net performance is statistically indistinguishable from a comparable benchmark return.
RESOLUTION ON DIVESTMENT OF INVESTMENTS IN COMPANIES DOING BUSINESS IN SUDAN

POLICY STATEMENT REGARDING HUMANITARIAN CRISIS IN DARFUR

Approved: May 2008

In recognition of the humanitarian crisis in Darfur, the university’s Joint Committee on Investments is requesting that its investment advisors, fund managers, and financial consultants comply with the Policy Statement set forth below.

If there are any questions regarding the Policy Statement for its application in any one instance, please contact the Chair of the Joint Committee on Investments or the University’s Senior Vice President for Finance and Administration.

This Resolution is set forth below:

WHEREAS, despite significant pressure from the United States and the world community, the human rights situation in Sudan has continued to deteriorate; and

WHEREAS, the Joint Committee on Investments has reviewed the human rights situation in Sudan and the escalating political and economic instability in that country and has determined that it would be in the best interests of the university to fully divest itself of investments in companies with operations in Sudan;

NOW, THEREFORE, BE IT RESOLVED:

1.) That the Boards of Governors and Trustees, through a recommendation issued by the Joint Committee on Investments, authorizes the university’s divestiture of holdings in companies with operations in Sudan. Implementation of this measure is delegated to the Investment Committee, with the understanding that divestiture shall generally be in keeping with the so-called “targeted” divestiture approach undertaken by the State of New Jersey.

2.) That nothing in this resolution shall be deemed to direct the sales of holdings at an imprudent time; however, such sales shall take place as soon as prudently possible; and

BE IT FINALLY RESOLVED that the Boards of Governors and Trustees of Rutgers, The State University of New Jersey, hereby consents to the October 26, 2006 resolution, and joins the Joint Committee on Investments in reasserting its belief in the fundamental importance of political neutrality.

Board of Governors
Approved December 8, 2009

Board of Trustees
Approved October 26, 2006