

## UNIVERSITY POLICY

<b>Policy Name:</b>	Investment Policy				
<b>Section #:</b>	40.2.14	<b>Section Title:</b>	Financial Management: Fiscal Management	<b>Formerly Book:</b>	N/A
<b>Approval Authority:</b>	Board of Governors with the consent of the Board of Trustees		<b>Adopted:</b>	05/08/2002	<b>Reviewed:</b> <del>03/09/2021</del> <u>12/07/2021</u>
<b>Responsible Executive:</b>	Executive Vice President – Chief Financial Officer and University Treasurer		<b>Revised:</b>	07/17/2002; 11/21/2003; 10/06/2005 BOG with 10/27/2005 BOT consent; 09/27/2006; 10/26/2006 BOT with 12/08/2006 BOG consent; 06/25/2009; 04/13/2012; 07/01/2013; 10/10/2013; 8/21/2014; 6/15/2016; 06/15/2017; 12/06/2018; 12/17/2019; 03/09/2021; <u>12/07/2021</u>	
<b>Responsible Office:</b>	University Investment Endowment Office		<b>Contact:</b>	University Investment Endowment Office: <a href="mailto:investment@finance.rutgers.edu">investment@finance.rutgers.edu</a> <u>848-445-2788</u>	

### 1. Policy Statement

The following investment objectives and guidelines are intended to govern the overall management of the University’s endowment funds consisting of the unitized long-term investment pool, which includes the Board of Governors' Long Term Fund and the Board of Trustees' Long Term Fund (collectively "the Endowment"), and other separately managed funds subject to the terms of their agreements.

### 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 opportunities, and make recommendations to the Boards; provide guidance for, expectations of, and limitations on all parties bearing responsibilities related to the endowment; and achieve risk-adjusted returns that maintain the purchasing power of the endowment, while adhering to the highest fiduciary standards and upholding a commitment to the core values of Rutgers University.

### 3. Who Should Read This Policy

Members of the University community with an interest in the University’s policies on endowment investments.

#### 4. Resources

- A. Appendix A: Asset Allocation
- B. Appendix B: Rutgers University Committee on Divestment Policy Advisory Statement to the Joint Committee on Investments
- C. Appendix C: Resolution on Divestment of Investments in Companies Doing Business in Sudan; Resolution Approving Divestment From Fossil Fuels and Amending University Policy 40.2.14: Investment Policy

#### 5. Definitions

None

#### 6. The Policy

##### 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" or "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. Joint Committee on Investments ("Committee")

The Committee's responsibilities are as follows:

1. Set overall policies for the investment of the University's endowment;
2. Review and ensure this policy is being implemented; develop recommendations for revisions to this policy for review, and adoption by the Board of Governors and the Board of Trustees;
3. Establish the University's spending rate and approve the University administration's calculation thereof;
4. Establish the institution's real return objective;
5. Establish appropriate implementation guidelines, including but not limited to the following:
  - a. acceptable level of risk for the portfolio;
  - b. long-term asset allocation targets for the portfolio; and
  - c. asset classes for inclusion in the portfolio.
6. In consultation with the Investment Endowment Office, select and evaluate the Investment Consultant;
7. In consultation with the Endowment Office and the Investment Consultant, establish investment practices, including but not limited to the following:

- a. hiring and terminating investment managers; and
  - b. portfolio rebalancing rules.
8. Review and evaluate performance of the investment portfolio against appropriate benchmarks;
  9. Oversee the Investment Endowment Office and the Investment Consultant in ongoing monitoring of individual fund managers, and hiring and terminating investment managers as appropriate;
  10. Ensure that adequate and appropriate research and due diligence is being conducted concerning the portfolio and its investments;
  11. Annually, review the level of expenses incurred;
  12. Interface with the Investment Endowment Office and Investment Consultant to address current issues;
  13. Report regularly on the status of the endowment to the Board of Governors and Board of Trustees;
  14. Avoid conflicts of interest, the appearance of conflicts of interest, and prohibited transactions;
  15. Monitor annually the performance of all separately managed funds not monitored by the consultant; and
  16. Review and approve the budget of the Investment Endowment Office.

**C. Investment Endowment Office**

The Investment Endowment Office, in conjunction with the Investment Consultant, has responsibility for administering the endowment and will report to the Committee on all matters relating to the investment and stewardship of the assets; it will report administratively to the Executive Vice President – Chief Financial Officer and University Treasurer. The Investment Endowment Office will serve as contact for investment managers and consultants and will maintain detailed knowledge of the portfolio and its managers. The Office, in collaboration with the Investment Consultant, will also make recommendations to the Committee in order for the Committee to discharge its responsibilities.

In addition, the Investment Endowment Office will have the following responsibilities:

1. Implement the actions endorsed by the 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 Committee and the Investment Consultant; and
6. Prepare and annually present performance and evaluation reports on all separately managed funds not monitored by the consultant.

**D. Investment Consultant**

The Investment Consultant is responsible for providing support for the Committee and the Investment Endowment Office, including advice and education pertaining to investment guidelines, asset allocation structure, and investment managers. The

Investment Consultant will assist in the selection of new investment managers and monitoring of existing managers. In addition, the consultant will provide performance evaluation reports for the endowment on a monthly basis.

The Investment Consultant will have the following responsibilities while working in conjunction with endowment staff:

1. Assist in the development and implementation of investment policies, objectives and guidelines;
2. Prepare asset allocation analyses 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 using industry standards for performance reporting and analysis;
5. Annually, at a minimum, complete a full analysis of the portfolio's liquidity;
6. Attend Committee meetings as requested;
7. Review fees for both current and proposed investment managers regularly;
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 Committee and the InvestmentEndowment Office;
9. Notify the Committee and the InvestmentEndowment Office of any material changes in ownership of the consultant and of any changes in personnel who are integral in assisting the University;
10. Assist the Committee and the InvestmentEndowment Office in special tasks relating to the endowment;
11. Notify the Committee and the InvestmentEndowment Office immediately of any material litigation or violation of securities regulations in which any Investment Manager utilized by the endowment is involved;
12. Notify the Committee and the InvestmentEndowment Office of any significant changes in portfolio managers, personnel, or ownership of any investment management firm utilized by the endowment; and
13. Adhere to all regulatory agency guidelines.

## 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 a long-term investment horizon and serves as a perpetual asset to the University.
2. **Return:** The long-term objective is to achieve a total return averaging at least the spending policy plus inflation, net of fees and expenses. Returns in

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excess of this amount will provide for the long-term growth of the endowment.

3. **Risk:** The overall level of risk in the endowment 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:** The endowment has a long-term investment horizon with relatively low liquidity needs. For this reason, the endowment can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective.

## **B. Return Objectives**

The investment objectives of the endowment are based upon a long-term investment horizon allowing short-term fluctuations to be viewed in an appropriate perspective.

Over time, the endowment will aim to achieve its return goal while maintaining acceptable risk levels. To accomplish this goal, the endowment will diversify its assets among several asset classes (See Appendix A).

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.
2. Investment portfolio assets should return a nominal rate of return greater than or equal to a composite index created by combining various indices in the same proportion as the Endowment's policy allocation (described in the Asset Allocation section II.E).

## **C. Volatility and Risk**

Risk is defined as the probability of failing to meet the endowment's return objectives within a long-term framework. The following variables related to risk should be considered in all aspects of the investment process:

1. Asset/Style Allocation
2. Volatility
3. Risk of Loss
4. Correlation
5. Liquidity Requirements

## **D. Spending Policy**

The purpose of the endowment 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 4.00% of the average of the trailing 13 quarter-end endowment market value per share average 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 also includes a 0.95% allocation for foundation administration. This spending rate will be reviewed at least annually by the Committee in light of evolving trends with respect to investment returns and the rate of inflation. Adjustments will be made when appropriate.

#### **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 Endowment~~ Office and 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.

The endowment's current long-term asset allocation framework is illustrated in Appendix A.

#### **F. Portfolio Rebalancing**

The ~~Investment Endowment~~ Office will monitor the asset allocation and attempt to stay within the ranges allowed for each asset category with the ultimate motivation to move towards the long-term target allocations. If the portfolio is close to or outside of the allowed ranges, the ~~Investment Endowment~~ Office, with advice from the Investment Consultant, will develop a plan of action to rebalance. Allocations may differ from targets but within ranges for various reasons, including market fluctuations, moving to new targets over time, and decisions to over- or under-weight a sector based on valuations, risks, and opportunities. Alternative asset classes may require a longer period of time to achieve the target allocations. Where possible, portfolio cash flows will be used to rebalance in a ~~cost-effective~~cost-effective manner.

#### **G. Impermissible Investments**

From time to time, the Committee may decide to recommend 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 Committee will be consistent with restrictions in investments within New Jersey Statutes 52:18A-89. In addition, the Committee will consider the Rutgers University Committee on Divestment Policy Advisory Statement to the Committee included as Appendix B in making recommendations under this section. Should the governing boards of the University expressly approve any restrictions on investment of the endowment, such resolutions will be included as Appendix C within this policy.

#### **H. Liquidity**

The endowment has a long-term investment horizon with relatively low liquidity needs. For this reason, the endowment can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective. Consequently,

the endowment may take advantage of less liquid investments, such as private equity, real estate, hedge funds, and other partnership vehicles, which typically offer higher risk-adjusted return potential as compensation for reduced liquidity. To ensure adequate liquidity for distributions and to facilitate rebalancing, the Investment Endowment Office and the Investment Consultant will conduct ongoing reviews of total endowment liquidity.

APPENDIX A

Asset Allocation

<u>Asset Allocation</u>	<u>Policy Target Ranges</u>
<b>Growth Assets</b>	<b>60 - 85%</b>
<b>Public Equities</b>	<b>30 - 50%</b>
Domestic	10 - 30%
International Developed	5 - 20%
Emerging Markets	0 - 15%
<b>Private Equity</b>	<b>15 - 30%</b>
<b>Real Estate</b>	<b>5 - 15%</b>
<b>Opportunistic Credit</b>	<b>5 - 15%</b>
<b>Diversifying Strategies</b>	<b>10 - 30%</b>
<b>Hedged Liquid</b>	<b>5 - 20%</b>
<b>Private Liquid</b>	<b>5 - 15%</b>
<b>Liquidity</b>	<b>5 - 20%</b>
<b>Fixed Income</b>	<b>5 - 15%</b>
<b>Cash</b>	<b>0 - 5%</b>

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## APPENDIX B

### RUTGERS UNIVERSITY COMMITTEE ON DIVESTMENT POLICY ADVISORY STATEMENT TO THE JOINT COMMITTEE ON INVESTMENTS

The Joint Committee on Investments (“JCOI”) has asked the University administration for assistance in developing a divestment policy. In response, the administration appointed a committee composed of students, faculty, administration and board members which has developed this advisory statement for the JCOI.

As the public land-grant, research university of the State of New Jersey, the University’s mission statement recognizes that our concerns extend beyond our campuses and that the research, teaching, and service of the University addresses problems so as to benefit citizens locally, regionally, nationally and globally. The University’s mission statement may be found at <https://www.rutgers.edu/about>

The University’s long-term financial health relies on the governing boards of the University exercising their fiduciary responsibilities to manage the endowment with reasonable care and in accordance with prudent investor standards in order to protect the University’s assets for current and future generations. The University’s investment policy governs the overall management of the endowment and may be found at <https://policies.rutgers.edu/sites/default/files/40-2-14-current.pdf>~~https://policies.rutgers.edu/40-2-14-current.pdf~~<https://policies.rutgers.edu/40-2-14-current.pdf>.

Section II. G of the investment policy, “Impermissible Investments,” provides that the JCOI may decide to recommend to the governing boards that the University does not desire to hold investments in specifically designated companies, types of companies, or companies located or doing business in certain geographical regions.

The primary purpose of any divestment is to express unequivocally and publicly the University’s view on an issue rather than to bring about an economic impact through our endowment’s investment action. This advisory statement is intended to guide the decision-making of the University administration and the JCOI when considering whether to make a recommendation to the governing boards to divest from specific companies, industries, or regions. Such recommendations should be extremely rare and subject to a high standard.

The following principles should be applied when evaluating divestment recommendations:

- The divestment is consistent with the fiduciary obligation of the JCOI and the Boards;
- The behavior, action, or product in question is antithetical to the core mission or values of the university;
- The organization, industry or entity to be divested has sole or shared responsibility for the concern(s) identified;
- The concern reflects the consensus of the University community.

Divestment requests may be generated by members of the University community and should be submitted to the Office of the University Secretary at this website:

<https://universitysecretary.rutgers.edu/contact-us/send-message-office-secretary> Divestment requests should address how the proposal meets the principles listed above.

The University Secretary will refer these requests to the Chair of the JCOI and the Chief Financial

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Officer (“CFO”) or his/her designee.

Should the JCOI chair and the CFO or designee determine that the request does not meet all of the criteria listed above, the request will not be submitted to the JCOI. Should the JCOI chair and the CFO or designee make a preliminary determination that the request appears to meet the four criteria listed above, they may, at their discretion, recommend that an ad hoc committee be created to consider the following issues and advise the JCOI in considering the divestment request:

- Whether there is a consensus among a wide array of stakeholders that the subject of the divestment request is a concern that affects either the University community and/or people beyond its borders;
- Whether the University community has taken action to disengage from the organization, industry or entity being considered (for example, in its purchasing decisions);
- Whether the subject of the divestment request is a social injury of such magnitude that, if not addressed, will directly affect a significant number of individuals.

In considering a divestment recommendation, the University, as a corporate body, must undertake its efforts so as to avoid making commitments to positions that may intimidate its members, produce an atmosphere of distrust and suspicion, or create obstacles to free inquiry.

The decision to divest is made solely by the Board of Governors and Board of Trustees. The JCOI, and only the JCOI, can make a divestment recommendation to the boards.

A response to a divestment request will be provided at the following points in the evaluation process:

1. If the request is not referred to the JCOI;
2. If the request is referred to the JCOI;
3. If a divestment recommendation is on the agenda of the boards for consideration;
4. If the decision is negative, a response to the divestment request will be provided.

**APPENDIX C**  
**RESOLUTION ON DIVESTMENT OF INVESTMENTS IN COMPANIES DOING BUSINESS IN**  
**SUDAN**

**POLICY STATEMENT REGARDING HUMANITARIAN CRISIS IN DARFUR**

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 Executive 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, 2009



**RESOLUTION**  
**APPROVING DIVESTMENT FROM FOSSIL FUELS AND**  
**AMENDING UNIVERSITY POLICY 40.2.14: INVESTMENT POLICY**

**WHEREAS**, the Rutgers University Investment Policy includes a process the University should follow when members of the University community request that funds within the Rutgers University Endowment be divested from, or that the Investment Office should avoid making new investments in, certain industries, sectors, or companies due to a potential conflict between the University's position on an issue or agenda that is held or advanced by such industries, sectors, or companies; and

**WHEREAS**, in the spring of 2020, the Joint Committee on Investments received a request from the Endowment Justice Collective, an association of several Rutgers student groups, individual students, professors, alumni and community members ("EJC"), to divest from fossil fuels, among other sectors; and

**WHEREAS**, pursuant to the process, the Chair of the Joint Committee on Investments ("Chair") and the University's Executive Vice President – Chief Financial Officer ("CFO") determined EJC's request regarding fossil fuels should proceed to the next step in the process, which is to form an ad hoc committee to evaluate the divestment request and make a recommendation to the Joint Committee on Investments; and

**WHEREAS**, the Chair and CFO formed an ad hoc committee of students, faculty members, and administrators from across Rutgers University that conducted its work of evaluating the divestment request in light of the three major elements set forth in the Investment Policy's process regarding divestments requests, and concluded its work by submitting the attached written report dated February 22, 2021 to the Chair and CFO; and

**WHEREAS**, as further described in the ad hoc committee's Report, the ad hoc committee recommends that the University divest from fossil fuel investments by taking the following actions:

1. Cease all new investments in funds whose strategy is focused on fossil fuel investments;
2. Divest from passive index funds with exposure to fossil fuel investments within one year and reinvest in environmentally friendly versions of those indices. In addition, actively seek new investment opportunities in renewable energy and energy efficiency categories provided they deliver competitive rates of return;
3. Exit all currently held private fossil fuel investments within 10 years, or as soon as practicable;
4. Because some commingled funds may hold minimal exposure to fossil fuels, emphasize the University's stance on this topic to investment partners, urging them to review their own processes and decisions regarding the inclusion of such assets in client portfolios; and

**WHEREAS**, on March 5, 2021, the Joint Committee on Investments ("JCOI") reviewed and discussed the ad hoc committee's report and determined that the ad hoc committee properly evaluated the divestment request, agrees that the recommendations can be enacted in accordance with the fiduciary responsibilities of the boards, and recommends that the Board of Governors and the Board of Trustees adopt the ad hoc committee's recommendations for divestment from fossil fuels; and

**WHEREAS**, in addition to adopting the ad hoc committee's recommendations, the JCOI (i) states for the sake of clarity that these recommendations also include divestment from fossil fuel investments held in separately managed accounts owned by the University within the Long-Term Investment Pool, and (ii) recommends that the Investment Office report progress of this divestment initiative annually.

**NOW, THEREFORE, BE IT RESOLVED** that, upon the recommendation of the JCOI, the Board of Governors and the Board of Trustees of Rutgers, The State University of New Jersey, each agrees that Rutgers should divest from fossil fuel investments as more specifically described in the ad hoc committee's report attached hereto and adopts the ad hoc committee's recommendations; and

**BE IT FURTHER RESOLVED** that the Investment Office should (i) implement the recommendations within the parameters described in the report while also being mindful of its fiduciary duty to apply the standard of care applicable to investment offices generally, and (ii) report progress on this divestment initiative annually; and

**BE IT FURTHER RESOLVED** that the Board of Governors and the Board of Trustees of Rutgers, The State University of New Jersey, hereby thank each and every member of the ad hoc committee for agreeing to be part of the committee, and for the work, effort, and time each member contributed to the process; and

**BE IT FURTHER RESOLVED** that the University's Investment Policy (University Policy 40.2.14) be amended by adding a copy of this Resolution as Appendix C thereof; and

**BE IT FINALLY RESOLVED** that this Resolution shall take effect upon approval by the Board of Governors and Board of Trustees.

Attachment: Report of the Ad Hoc Committee on Fossil Fuel Divestment

Board of Governors  
Rutgers, The State University  
of New Jersey  
March 9, 2021

Board of Trustees  
Rutgers, The State University  
of New Jersey  
March 9, 2021