TRINITY INTERNATIONAL UNIVERSITY

TIU POLICY: **Investment Policy**

TIU POLICY #: **P-104**

STATUS: **Approved, July 2009**
Updated, May 2015

I. PURPOSE:

The purpose of this policy is specified as follows:

A. To outline investment related responsibilities of the Investment Committee of the Board of Regents (Investment Committee) and the investment professionals it retains to manage invested assets.

B. To establish formal, yet flexible, investment guidelines incorporating prudent asset allocation strategies and realistic total revenue goals.

C. To provide a framework for regular, constructive communication between the Investment Committee and its professional investment advisors.

D. To create standards of investment performance which are historically achievable and by which the performance of investment managers will be measured, over a reasonable time period.

These statements may be reviewed periodically by the Investment Committee to ensure its relevance to current capital market conditions and the needs invested funds.

II. SCOPE:

Investment assets of Trinity International University (University) are defined as:

A. Permanently Restricted Endowment Assets;

B. Board-Designated (Quasi) Endowment Assets;

C. Charitable Gift Annuities;

D. Charitable Remainder Trusts.

III. POLICY:

A. Responsibilities of the Investment Committee

The responsibility of the Investment Committee is to provide governing oversight of invested assets under the scope of this policy. The Investment Committee acknowledges responsibility as a fiduciary of the University's invested assets under the scope of this policy. In this capacity, the Investment Committee must act prudently and for the best long-term interest of the University. The Investment Committee has the responsibility for monitoring the progress in achieving investment objectives, confirming compliance with the policies and guidelines as stated below, and considering other investment matters, as appropriate.

Responsibilities of the Investment Committee include:

1. Developing investment objectives, guidelines, and performance measurement standards which are consistent with the risk, return, and policy parameters of the University.

2. Recommending a Custodian or Master Investment Trustee, if necessary.

3. Recommending investment managers, commingled ("pooled") funds, mutual funds, or other appropriate investment vehicles.

4. Recommending an investment consultant to assist in monitoring the investment management if necessary.

5. Communicating the investment objectives, guidelines and standards including any material changes that may occur to the investment managers and responsible representatives of the selected investments.

6. Reviewing and evaluating results of each investment component in context with established standards of performance on a quarterly basis.

7. Taking any corrective action deemed prudent and appropriate if investment results are below expectations.

8. Appointing one or more persons to carry out the technical administration functions as a proxy for the Investment Committee, e.g. signing documents.

9. Reporting to the Board of Regents at each regularly scheduled Regent's meeting.

B. Responsibilities of the Investment Manager(s)

The investment manager(s), in recognition of their role as fiduciaries of the University's investment assets, must assume the following responsibilities as they pertain to:

1. Investment program

    a. Acknowledge in writing, acceptance of the objectives, guidelines, and standards of performance as defined in this Statement, and invest assets in accordance with those objectives, guidelines and standards.

    b. Exercise full discretionary authority as to all buy, hold, and sell decisions for each security under management, subject to the guidelines as defined in the Asset Guidelines Section of this policy.

    c. Make written recommendations, when deemed necessary, as to changes in the objectives, guidelines, and/or allocation mix, based upon material and sustained changes in the capital markets.

    d. Ensure that their actions, decisions, and investments do not imperil the legal standing or tax status of the University under the laws of the United States and the State of Illinois.

2. Reporting

    a. For separately managed accounts, produce a statement for the Investment Committee at the end of each quarter describing portfolio asset class weightings, individual security positions showing both cost and market value, all principal cash transactions (including all purchases and sales in sufficient descriptive detail), and time-weighed returns over various periods compared to appropriate benchmark indices and measurements of risk-adjusted performance and analysis of styles.

    b. Managers may be asked to provide reports for separate trusts.

    c. For commingled investments, provide a statement at least each quarter that shows unit position and unit value.

3. Review meetings

    At the invitation of the Investment Committee each investment manager will participate in a review meeting and provide:

    a. A review and appraisal of the investment program.

    b. A commentary on results in light of the appropriate standards of performance and investment guidelines.

    c. A synopsis of the key investment decisions made by the manager, the underlying rationale, and how those decisions could affect future results.

    d. A discussion of the manager’s outlook, and the portfolio allocation changes this outlook may prompt, and how these decisions could affect future results.

4. Communication

The investment manager is responsible for frequent and open communication with the Investment Committee on all material matters pertaining to investment policies and asset management. In particular, the investment manager will:

a. Provide notice of any material changes in investment outlook, strategy, and portfolio structure.

b. Notify the Investment Committee of material changes in firm ownership, organizational structure, financial conditions, senior staffing and management.

c. Send a copy each year of each firm's S.E.C. Form ADV filing to the Investment Committee.

d. Acknowledge, at least annually, their understanding of and intent to adhere to the investment guidelines as they pertain to all parties involved in the portfolio management, trading, and portfolio administration process.

5. Brokerage

The investment manager will use their best judgment to obtain brokerage services resulting in the best execution of trades at the lowest net cost to the University. The investment manager will make brokerage summaries available to the Investment Committee upon request.

6. Voting on proxies

The investment manager (or those hired or recommended by the investment managers to fulfill this function) will use their best efforts to ensure that their proxy voting benefits the University. If any mutual or pooled funds used have their own proxy voting policies, those policies shall take precedence over the guidelines in this section. This section is designed to guide the investment manager in voting proxies.

<u>Routine</u> proxy issues are not expected to have a material adverse effect on the price of the security or will not substantially affect the rights or privileges of the security. Routine proxy items include such matters as the selection and ratification of auditors, stock splits, application for the listing of securities, employment issues, etc. The investment manager will vote all Routine proxies according to the recommendations of the company management.

<u>Non-Routine</u> issues include matters that may adversely affect the price or rights of the security. The investment manager shall research all Non-Routine issues and vote the shares according to the manager's fiduciary charge. The investment manager will keep summaries of their votes on all Non-Routine issues. These summaries will be sent to the Investment Committee at least annually. The investment manager will also document that all proxies are being voted. Should any investment manager have any questions on voting of either Routine or Non-Routine issues, they may confer with the

authorized representative of the Investment Committee. Issues may include matters such as:

a. Acquisitions, mergers and divestitures.

b. Significant changes in the company's articles of incorporation or by-laws, such as anti-takeover provisions, "poison pills" or "rights" issues.

c. Increases in the number of authorized or preferred shares.

d. Unusual compensation or benefits to be awarded contingent upon the merger or acquisition of a particular company.

Banks and other institutions with which the University may have short-term liquid invested assets retain fiduciary responsibility to the University but are exempt from the duties listed above which are irrelevant to these types of investments.

C. Responsibilities of the Investment Consultant

The Investment Committee may appoint an investment consultant. Upon appointment, the investment consultant would assume the following responsibilities (otherwise performed by parties assigned by the Investment Committee) as they pertain to:

1. Statement of investment objectives and policies

   a. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards of the Investment Policy based upon material and sustained changes in the capital markets.

   b. Incorporate amendments to the policy through subsequent drafts until a final draft is approved by the Investment Committee.

2. Asset allocation within the plan

   Make recommendations with supporting materials, as to any changes to portfolio target allocations among the various major classes of investment assets (e.g. stocks, bonds, cash). If there are multiple investment managers or asset classes, this recommendation will include plans for rebalancing asset allocations as capital market movements cause actual allocations to diverge significantly from the target allocations.

3. Selection of investment vehicles or managers

   Assist the Investment Committee through the selection process by identifying and screening candidates for appropriate characteristics. Perform due diligence checks. Help quantify the trade-offs between expected returns and risks among the various alternatives. Function as the information-gathering conduit for the Investment Committee.

4. Monitor investment performance

   A performance evaluation report of the Investment Committee and its investment component parts will be conducted semi-annually, or as requested by the Investment Committee. The written report will cover four basic areas:

   a. Returns - Total time-weighted returns over various periods.

   b. Comparisons - Returns will be compared to appropriate benchmark indices and a statistical universe of similar funds.

   c. Diagnostics - Measurement of risk-adjusted performance, analysis of risks, style characteristics, and return attributes.

   d. Compliance - Portfolios will be checked for compliance with the objectives, targets, and policy guidelines specified in this Statement.

   The investment consultant will also provide regular qualitative analysis dealing with each manager's organization, philosophy, account and personnel growth/turnover, etc.

5. Review meetings

   Semi-annually, or at the request of the Investment Committee, the investment consultant will participate in a review meeting. The agenda for review meetings will include:

   a. Review and re-appraisal of the investment program.

   b. Commentary on investment results with respect to the appropriate benchmarks or standards of performance.

   c. Discussion of any key policy issues facing the Investment Committee.

   d. Any other matters as deemed appropriate by the Investment Committee.

D. Investment Objectives and Performance Standards

The University's goal is to disburse up to 5% of the market value of the applicable investment annually in grants and fees to the University's operating fund. Return objectives may vary based on investment asset class specified on page 1 (Scope section). As a general rule, the primary objective of the Investment Committee is to achieve at least an annualized total return of 5.0% in excess of inflation (defined by the Consumer Price Index) and investment management fees.

Primary concerns are for the growth of capital while ensuring the safety of the invested funds. The investments will be appropriately diversified to control risk.

1. Time horizon

   As a general rule, the Investment Committee views the assets under the scope of this policy to be in perpetuity to benefit the University indefinitely. The exception may be the Board-designated endowment assets for which the Board, at its discretion, may draw upon funds for a specific project or purpose. Any such exceptions will be communicated to the investment manager as timely as possible. Returns of the investment components will be measured over a full market cycle against their respective return objectives. Market cycles may differ markedly in length, and there is no standardized measure for a market cycle's term. For the Investment Committee's purposes, a full market cycle encompasses both a down leg and an up leg, in either order. The up or down portions each will be of at least two consecutive quarters in length. Shortfalls relative to the return objectives will be tolerated over portions of the market cycles, provided that the return objectives for the Fund are met over the full market cycle.

2. Performance measurement

   The total return for the invested assets (both in aggregate and within the selected asset allocation classes) will be compared to selected industry performance benchmarks.

   a. Minimum total return objective: inflation and investment fees plus five percentage points.

   b. Component returns: the total return for each investment component is expected to compare favorably to the total return of its respective comparative index:

Investment Component	Index
Large Cap U.S. Equity	S&P 500
All Cap U.S. Equity	Wilshire 5000
Small Cap U.S. Equity	Russell 2000
International Equities	MSCI EAFE
Fixed Income	Barclays U.S. Aggregate Bond

3. Volatility

   The volatility of returns for the composite of investments, as well as for each investment component should be controlled. In general, higher-than-market volatility for investments is permitted only to the extent that returns in excess of the appropriate benchmark are generated.

E. Asset Allocation

The assets covered under the scope of this policy are comprised of four categories: Permanently Restricted Endowment Funds, Board-Designated Endowment Funds, Gift Annuities, and Charitable Remainder Trusts. Each of these categories may have different asset allocations as described below.

1. Asset allocation

   a. Permanently Restricted and Board-Designated Endowment Funds

      The investment manager(s) handling the permanently restricted endowment funds and/or the board-designated endowment funds will recommend to the Investment Committee an investment strategy to be approved by that Committee. Upon approval by the Investment Committee of the recommended asset allocation strategy (as evidenced by Investment Committee meeting minutes), the investment manager will submit an *authorization to execute* letter to the University to be signed by the Chief Financial Officer. The signed authorization to execute letter will then be returned to the investment manager prior to implementation of the asset allocation strategy.

      Asset allocation targets are to be maintained within a range of plus or minus five percentage points. In extreme capital market environments, an investment manager may decrease commitment to either stocks or bonds and hold cash, with the expectation that such a move will be justified to the Investment Committee in writing and will result in increased long-term performance for the investments of the Endowment Assets.

   b. Gift annuities

      As the gift annuities are invested in aggregate (that is, as a pool, not by individual annuity), the investment manager handling gift annuity investments will recommend to the Investment Committee, an investment strategy to be approved for the aggregate of the gift annuity investments. The strategy for this pool of annuity investments should take into account such factors as payout rate requirements, annuitant life expectancies, etc.

      Individual needs and/or stipulations of each annuity will be provided to the investment manager.

   c. Charitable Remainder Trusts

      The investment manager handling Charitable Remainder Trust investments will recommend to the Investment Committee, an investment strategy to be approved for each individual trust. The strategy for each trust should take into account such factors as the individual needs and/or stipulations of the trust, payout rate requirements, income beneficiary life expectancies, etc.

      Individual needs and/or stipulations of each trust will be provided to the investment manager.

2. Rebalancing the plan

   Over time, an asset class allocation in any given account may move away from its long-term strategic target. It is understood that it is inefficient to rebalance to the strategic target until the estimated added value more than pays for the transaction costs and taxes incurred in rebalancing.

Generally, it is appropriate to rebalance once divergence from the target allocation is approximately 5% or greater, either via cash flows or by selling an asset class, to bring the actual allocation closer toward its strategic target. However, other factors may cause the acceptable divergence level to increase or decrease as deemed appropriate by the managers. Some of these factors may include taxes, relative target weights and current market conditions.

Assets invested in hedge funds [note however, sections (F)(1)(d)(viii) and (F)(2)(e)(vii) in this policy document concerning hedge funds] are not automatically rebalanced as described in the preceding sentence, but rather upon request by the investor in accordance with liquidation dates and/or redemption and subscription processes set forth in the offering materials for each hedge fund. Any rebalancing across relationships will only be preformed upon the request of the client.

3. Cash reserves

   The Investment Committee may require increased cash reserves as the University's conditions warrant.

F. Asset Guidelines

1. Equities

   a. Diversification

      No more than 8% of any investment manager's portfolio at market at time of purchase and 10% at market value shall be invested in any one company.

   b. Market capitalization

      Only securities of companies with market capitalization (current market price per share times the number of common shares outstanding) in excess of $100 million at time of purchase are permissible.

   c. Permissible holdings:

      i. Common stocks, or American Depository Receipts (ADRs) listed on a major U.S. exchange, or U.S. exchange-traded, dollar denominated shares of foreign issuers.

      ii. Common stocks traded through the NASDAQ.

      iii. Investment-grade securities convertible into common stock. These securities must be rated A or higher by Standard & Poor's Corporation, or A or higher by Moody's Investors Services.

iv. Investment-grade preferred stock of companies rated B+ or higher by Standard & Poor's Corporation.

v. Mutual or commingled funds.

vi. Bank, trust or insurance company pooled funds.

d. Holdings not permissible without Investment Committee's prior written approval:

i. Short sales.

ii. Direct holdings in alcohol beverage companies, tobacco companies, gaming and casino gambling companies, or companies that manufacture (or maintain marketing/licensing agreements with manufacturers of) abortifacients or instruments used in the abortion procedure.

iii. Margin purchases or borrowing funds.

iv. Private or direct placements.

v. Commodities.

vi. Securities of the investment manager, the Custodian or Master Investment Committee, their parent or subsidiaries (excluding money market funds).

vii. Stock loans.

viii. Investment in options, futures, hedge funds, venture capital funds, or other hedging vehicles and derivatives.

ix. Any other securities not specifically defined as Permissible Holdings, above.

x. No more than 25% of the portfolio, at market at the time of purchase, shall be invested in any one industry as defined by Standard & Poor's.

2. Bonds

a. Diversification

i. No more than 8% of an investment manager's bond portfolio at cost shall be invested in the securities of any one issuer. There shall, however, be no such limit on U.S. Government securities, Fannie Mae, or Government National Mortgage Association ("GNMA") securities, or collateralized mortgage obligations ("CMOs") that are collateralized entirely by GNMA securities.

ii. This bond diversification guideline is independent of the cash diversification guideline discussed below.

b. Quality

The credit quality of the fixed income portfolio shall be “A” or higher.

c. Duration

The market value weighted average duration of a bond portfolio, adjusted for expected life and call provisions, shall not exceed the effective duration of the fixed income benchmark index (cited earlier in this policy) by more than 50% for the U.S. fixed income instruments.

d. Permissible holdings:

   i. Debt securities issued or guaranteed by the United States, its agencies or instrumentalities (including U.S. Government Agency mortgage-backed securities), or other investment-grade rated debt issued by foreign governments.

   ii. Non-Agency mortgage-backed securities.

   iii. Corporate bonds, debentures and other forms of corporate debt obligations including equipment trust certificates.

   iv. Indexed notes, Floaters and other variable rate obligations.

   v. Yankee Bonds, Eurobonds and other dollar-denominated obligations.

   vi. Bank collective funds.

   vii. Certificates of deposit (“CDs”) and other money market instruments from banks also issuing bankers acceptances and with current commercial paper ratings of at least A-2 (by Standard & Poor’s) or P-2 (by Moody’s).

   viii. Mutual or commingled funds.

   ix. Non-dollar-denominated debt securities issued by governments or supranational agencies such as the World Bank.

e. Holdings not permissible without the Investment Committee’s prior written approval:

   i. Direct holdings in alcohol beverage companies, tobacco companies, gaming and casino gambling companies, or companies that manufacture (or maintain marketing/licensing agreements with manufacturers of) abortifacients or instruments used in the abortion procedure.

ii. Margin purchases or borrowing funds.

iii. Private or direct placements.

iv. Commodities.

v. Securities of the investment manager, the Custodian or Master Investment Committee, their parent or subsidiaries (excluding money market funds).

vi. Stock loans.

vii. Investment in options, futures or hedging vehicles.

viii. Any other securities not specifically defined as Permissible Holdings, above.

3. Cash and equivalents

   All cash and equivalent investments should be made with concern for quality and liquidity. To that end, investments will be limited to commercial paper rated A-2 (by Standard & Poor's Corporation) or P-2 (by Moody's Investors Service), certificates of deposit issued by banking institutions rated "A" or better, or securities issued or guaranteed by the U.S. Government, and perfected repurchase agreements collateralized by U.S. Government securities. The maximum amount to be invested in the commercial paper or certificates of deposit of any one issuer will be 5% of the total portfolio.

4. Other assets

   Guidelines for investments in other asset classes will be established in the future, if and when new asset classes are added to the investments of the Endowment Assets.

5. Commingled or mutual funds

   Notwithstanding language to the contrary, assets invested in commingled vehicles will be managed in accordance with the investment policies, procedures and guidelines set forth in the offering documents of such vehicles.

   As the Investment Committee cannot direct the particular investment policies of any commingled or mutual funds used in the investment structure, the broad guidelines outlined below will govern the selection of appropriate vehicles.

   a. Aggregate assets (minimums and maximums)

      The Investment Committee will determine for each fund provider a threshold level of aggregate assets (including both the assets in the pool or fund and any separated account assets managed similarly) sufficient to ensure broad diversification, efficient trading, and economies of scale in administrative expenses and transaction costs. Likewise, The Investment Committee will determine for each fund provider whether the aggregate assets (including both the assets in the pool or fund and any separated account assets managed similarly) have reached a size where they are causing the asset manager to deviate from the portfolio construction methods upon which the performance record was built.

b. Personnel

The Investment Committee will monitor the organizations providing investment management services to the funds, to ensure stability of personnel, thereby encouraging consistency of investment method.

c. Expenses

The Investment Committee will monitor both management fees and administrative expenses, to ensure that expenses are within normal and customary tolerances.

d. Portfolio characteristics

The Investment Committee will establish general expectations of each fund or pool's aggregate portfolio characteristics. Deviations from expectations will occasion a review of the portfolio manager's continued appropriateness in the investment structure.

6. Other assets

Investment guidelines and performance standards for new investments in assets not specifically covered above will be set at the time of investment after discussion by the Investment Committee, the investment consultant, and any other individuals, as appropriate.

7. Automatic review processes for investment funds

a. In the absence of an investment consultant, the investment manager(s) will be called upon to provide investment performance reviews of all funds on a quarterly basis to ascertain progress against the return objectives of each component. The reports cover four basic areas: returns, comparisons of returns to benchmarks and a statistical universe of similar portfolios, diagnostic risk analysis, and compliance with policies and objectives.

b. Beyond these customary reviews, certain circumstances, as outlined below, will trigger automatic formal reviews and potentially, reconsideration by the Investment Committee of the appropriateness of continuing to use the affected manager in the investment structure. None of these circumstances or events shall serve as automatic causes for changing investment managers, but will merely indicate the need for review.

c. Disappointing relative performance

i. Three-year cumulative return trails benchmark index.

ii. Percentile ranking of portfolio's three-year cumulative return against peer group is below median.

iii. Percentile ranking of portfolio's one-year return against peer group is at or below 75.

iv. Percentile ranking of portfolio's one-quarter return against peer group is at or below 90.

d. Fund management organization changes

i. Turnover of portfolio manager or other personnel significant to the portfolio management process.

ii. Ownership change.

iii. Involvement in relevant regulatory investigation or litigation.

e. Deviation for investment methods basic to historical record

i. Aggregate assets in product are insufficient to ensure broad diversification, efficient trading, and economies of scale.

ii. Assets in product grow too large to be managed in manner similar to the methods that built historical record.

iii. Portfolio characteristics do not match stylistic expectations.

iv. Significant increase in fees.