INVESTMENT POLICY AND SPENDING POLICY STATEMENT

New Mexico Highlands University Foundation

July 15, 2017

Information about the Foundation

The Foundation, a private, not-for-profit, IRS 501(c)(3) organization dedicated to the support of New Mexico Highlands University, retains assets for the benefit of the Foundation and the University. Such assets are managed by the Foundation's Board of Directors, and other organizations or persons as the Foundation Board of Directors may engage. The Investment Policy of the Foundation sets goals and guidelines for management of Foundation assets, establishes a process and structure for investment decision-making, and establishes criteria for evaluation of investment performance and processes.

Purpose of this Investment Policy Statement

This Investment Policy Statement (the "IPS") outlines the goals and investment objectives of The New Mexico Highlands University Foundation (hereafter, the "Foundation"). Since this Policy Statement is intended to provide guidance for the Board of Directors (the "Board"), the Finance Committee (hereafter, the 'Committee") and the Executive Committee, the Investment Consultant (hereafter, the "Consultant") and the investment managers responsible for managing the Foundation's assets, it outlines certain specific investment policies which will govern how to achieve those goals and objectives. This Policy Statement, upon the review and approval of the Foundation Board:

- Defines certain responsibilities of the Board, Committee, the Consultant, the investment managers, and other specified parties.
- Describes a risk posture for the investment of the Foundation's assets;
- Specifies the target asset allocation policy for those assets;
- Establishes investment guidelines regarding the selection of investment manager(s), permissible securities and diversification of assets;
- Specifies the criteria for evaluating the performance of the Foundation's investment manager(s) and of the Foundation investment portfolio as a whole; and

The Board believes that the investment policies described in this IPS should be dynamic. These policies should reflect the Foundation's current financial status, and the Board's philosophy regarding the investment of assets. These policies should be reviewed by the Board and Committee periodically and revised as necessary to ensure that they continued to reflect the current financial situation of the Foundation and the capital markets.

This IPS was prepared based upon the information provided by the Board and Committee. It is the Board's responsibility to provide all the necessary and relevant information for its preparation. This information, as well as the IPS itself, should be reviewed periodically for its continued accuracy and completeness.

Foundation Objectives

The objectives of the Foundation are not limited to:

- Wise stewardship of contributions, with emphasis on long-term results, particularly for the Foundation's permanently restricted funds, and achievement of donor and University objectives;
- Preservation of principal where donors have directed the Foundation to observe this requirement;
- A balance of growth and reasonable risk as a goal for all funds not restricted as to preservation of principal;
- Thorough understanding and regular review of the Foundation's investment management practices, policies, goals, and results, by the board with the assistance and input of the investment management team, including regular reporting to the Foundation board on performance of investments, fees, and other pertinent information from the investment manager;
- Seeking performance that is competitive with market benchmarks when viewed over a long-term trailing period, as well as performance that maintains investment value against inflation; and,
- Recognition that the market value of investments may fluctuate from time to time.

Responsibilities of the Foundation Representatives

Board of Directors

As fiduciaries, the Board of Directors is ultimately responsible for the Foundation's actions. They retain the authority to make all decisions related to Foundation investments. The primary responsibilities of the Board with respect to the oversight of the investment portfolio are:

- Establish and approve an investment policy statement and periodically review that statement for continued accuracy and completeness;
- Prudently diversify, or oversee the diversification of, the portfolio assets to meet an agreed upon risk/return profile;
- Prudently select investment options, including the selection of one or more investment managers;
- Monitor the investment managers and the performance of the assets under management;
- Consider the information provided by the Consultant and other professional advisors and act accordingly;
- Control and oversee all investment, record keeping and administrative expenses associated with the accounts;
- Review and deal prudently with conflicts of interest;
- Manage investments in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Uniform Prudent Investor Act (UPIA), regulations and guidelines of the Internal Revenue Service (IRS), and regulations and guidance of the State of New Mexico Office of the Attorney General. (Appendix B.);
- Identify the Foundation's liquidity needs to the Committee and Investment Consultant ; and,
- Should action be necessary between meetings of the Board of Directors, the Board directs the Executive Committee and the Chair of the Finance Committee to meet, in person, telephonically, or via internet, to determine the necessary actions, which may include advising the Board on Executive Committee action at its next meeting, calling a special meeting of the Board, or other actions as deemed necessary by the Executive Committee.

Finance Committee

The Board shall provide guidance to the Finance Committee as prescribed within this policy and the Committee shall then have the authority to act within that guidance. Specifically, the Committee shall:

1. Meet regularly, at least quarterly, with the Investment Consultant and other advisors to review the status of the portfolio;
2. Maintain records and provide reports delineating the performance of invested funds;
3. Provide context to guide the Board in understanding investment performance;
4. Recommend specific changes in the investment policy statement and investment deployment and/or management as appropriate to the Board of Directors; and,
5. Manage investments in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Uniform Prudent Investor Act (UPIA), regulations and guidelines of the Internal Revenue Service (IRS), and regulations and guidance of the State of New Mexico Office of the Attorney General.

Investment Consultant

The Committee should retain an Advisor or Consultant (the "Consultant") to:

- Assist the Board and Committee in strategic investment planning for the Foundation by providing assistance in developing an investment policy, an asset allocation strategy, and portfolio structure;
- Make recommendations about the appropriate asset allocation and the set of investment managers to implement the Foundation's investment strategy;
- Regularly report to the Board and Committee, including information on asset allocation, overall and individual investment performance, fees, and any other pertinent information requested by the Board, Committee or the Vice President for Advancement;
- Provide written performance measurement reports on a quarterly basis; and,
- Meet with the Committee in-person regularly, at least semi-annually, to help it review investment performance and consider whether any changes or other actions are called for with respect to the investment portfolio.

Investment Managers

Investment managers shall be selected by the Board of Directors, based upon a recommendation from the Finance Committee and the Consultant. The goal of each manager is to meet or exceed the market index, or indexes which most closely correspond to the style of investment management over a five calendar year moving average. Additionally, the overall level of portfolio risk should be consistent with the risk associated with the specified benchmarks. Investment managers are expected to adhere to the investment management styles for which they were hired, and will be evaluated regularly for adherence to investment discipline.

Each investment manager shall:

- Be a bank, insurance company or be registered as an investment adviser under the Investment Advisers Act of 1940 (where applicable);

- Maintain adequate fiduciary liability insurance and bonding for the management of this account;
- Acknowledge in writing that it is a fiduciary with respect to the assets under its management; and,
- The Investment Managers' specific responsibilities are, but not limited to:

1. Exercising discretionary investment management including decisions to buy, sell, or retain individual securities, and to alter asset allocation within the guidelines established in this statement;
2. Reporting, on a timely basis, quarterly investment performance results;
3. Communicating any major changes to economic outlook, investment strategy, or the investment objective progress of the Fund's investment management;
4. Informing the Board of Directors regarding any qualitative change to investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc;
5. Absent delegation to another service provider, each investment manager is responsible and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. The investment manager(s) shall vote proxies according to their established Proxy Voting Guidelines. A copy of those guidelines, and/or summary of proxy votes shall be provided to the Committee upon request; and,
6. Each investment manager is expected to prudently manage the Foundation's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this Policy Statement and in accordance with applicable laws.

The Custodian

The Custodian is responsible for the safekeeping of the Foundation's investment assets. The specific duties and responsibilities of the custodian include:

- Maintain separate accounts by legal registration;
- Value the holdings;
- Collect all income and dividends owed to the Foundation in its custody;
- Settle all transactions initiated by the investment manager; and
- Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

Investment Strategy

Risk Tolerance

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 (i.e. volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Foundation is the determination of an appropriate risk tolerance. The Board and Committee examined their willingness to take risk and the Foundation's financial ability to take risk based upon relevant factors, including:

Factors that contribute to a higher risk tolerance are:

1) The Foundation can take advantage of a long time horizon
2) The Foundation can make additional contributions

Offsetting these factors are:

1) The Foundation must be able to meet any unexpected expenses or liabilities

Investment Objectives

The Foundation's assets should be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The objectives of this Foundation are to maximize long-term returns consistent with prudent levels of risk. Investment returns are expected to provide adequate funds to sufficiently support designated needs and preserve or enhance the real value of the Foundation. In establishing the investment objectives of the Foundation, the Committee has taken into account the time horizon available for investment, the nature of the Foundation's cash flows and liabilities, and other factors that affect the Foundation's risk tolerance. Accordingly, the investment objective of the Foundation is income and growth.

Target Investment Profile

1. The target asset allocation will be recommended annually to the Board by the Finance Committee. Consideration shall be given to maintaining liquidity sufficient to meet fall and spring scholarship disbursement requirements, the net return (net of fees and inflation), annual and long-term performance against benchmarks as specified by this policy, and management fees.

   Asset Allocation Strategy

Asset Class	Minimum	Strategic	Maximum
Large Cap Equity	20%	35%	45%
Small Cap Equity	5%	10%	15%
International Equity	10%	15%	25%
Total Fixed Income	25%	35%	50%
Cash	0%	5%	10%
Alternatives	0%	0%	10%

2. A variance of up to 5% in any allocation category as a result of day to day management of the funds and market conditions, shall be acceptable. Greater variances will result in a prompt examination of whether the funds need to be rebalanced.
3. Detailed information on the current portfolio and variances related to the target investment profile shall be maintained by the Investment Consultant, and shall be made available upon request of the Vice President for Advancement, the Chair of the Finance Committee, or any sitting Foundation Board member.
4. An inventory and appraisal or valuation of all non-cash long-term assets of the Foundation shall be made every two years, or upon receipt of a substantial donation of this type. Non-cash donations shall not be incorporated into the target asset allocation calculations.
5. 'Alternative investments – Since the Foundation currently holds significant real estate assets and an artwork collection, investments in other financial instruments that are not publicly traded, insured, or commonly held, and are not equities, bonds, cash, or cash equivalents – are strongly discouraged but not prohibited. If recommended by the Consultant, Committee or the Board, said determination to invest in an alternative investment shall be accompanied by a detailed statement reflecting the due diligence performed prior to the recommendation, how the recommendation fulfills the requirements of the Board of Director's fiduciary responsibilities to the Foundation, and shall include a detailed risk analysis. Further information may be required upon request of the Executive Committee of the Board of Directors. Alternative investments shall not be made except as approved by a two-thirds (2/3) majority of present voting board members.
6. Loans of, or secured by, Foundation assets to any person, organization, business, non-profit, group, or other entity, with the sole exception of New Mexico Highlands University, shall not be made except as approved by a two-thirds (2/3) majority of present voting board members.

Target Return Objectives

The return objective is CPI + 5% net of fees.

Rebalancing Procedures

The allocations to each asset class and to investment styles within asset classes are expected to remain stable over most market cycles.

Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall Foundation's asset allocation, the aggregate asset allocation should be monitored; and the Committee may rebalance the Foundation's assets to the target allocation on a periodic basis, and review the Foundation's asset allocation at least annually. To achieve the rebalancing of the Foundation, the Committee may re-direct contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one investment manager to another.

Selection Criteria for Investment Managers

Investment managers retained by the Committee should be chosen using the following criteria:

- The investment style and discipline of the investment manager;
- How well the investment manager's investment style or approach complements other investment managers in the portfolio;
- Level of experience, financial resources, and staffing levels of the investment manager;
- How consistent an investment manager is to the style for which they were hired;
- Reasonableness of expense ratios/fees;
- Past performance, considered relative to other investments having the same investment objective. Consideration should be given to both consistency of performance and the level of risk taken to achieve results; and
- Stability of the organization.

Security Selection/Asset Allocation

- Each investment manager shall have the discretion to determine its portfolio's individual securities selection;
- The Foundation's portfolio is expected to operate within an overall asset allocation strategy defining the portfolio's mix of asset classes. This strategy sets a long-term percentage target for the amount of the portfolio's market value that is to be invested in any one asset class. The allocation strategy also defines the allowable investment shifts between the asset classes, above and below the target allocations; and
- The Committee is responsible for monitoring the aggregate asset allocation, and may direct a re-balancing of assets to the target allocation on a periodic basis.

Diversification Requirements

The primary method to reduce risk for the Foundation portfolio is diversification through asset allocation. By allocating assets in different asset classes, the portfolio can reduce risk by avoiding concentration as well as reduce risk through the low-correlation between different asset classes.

Each investment manager has discretion with regard to security selection and allocation within its respective portfolio. Unless otherwise noted below, under normal market conditions, each investment manager is expected to be invested consistent with its investment style as described in its relevant documentation. During an initial three month period after being retained, the investment manager may hold cash and cash equivalents in larger proportions in order to invest their portfolio on an orderly basis.

To minimize the risk of large losses, each investment manager shall maintain adequate diversification in their portfolio subject to the constraints outlined in this investment policy, and in their investment management agreement with the Foundation.

Alternative Investments

Alternative investments represent investments in investment vehicles that seek to provide diversification through innovative and flexible strategies (such as the ability to short, add leverage and hedge). Investments in such vehicles are expected to provide diversification and the opportunity for capital appreciation. Diversification standards within each investment vehicle shall be according to the prospectus or trust document. Investments in these investment vehicles carry special risks. The fund(s) may utilize speculative investment strategies, trade in volatile securities, and use leverage in an attempt to generate superior investment returns. The fund(s) may invest in illiquid securities for which there is no ready market and place restrictions on investors as to when funds may be withdrawn. Permitted alternative investments are: Hedge Funds, Private Equity and Real Estate. Investments in fund of fund vehicles that are diversified by investment style and typically utilize multiple investment managers within a fund should be emphasized. However, investment in single managers is allowed.

Cash and Equivalents

It is generally expected that the investment manager will remain fully invested in securities; however, it is recognized that cash reserves may be utilized from time to time to provide liquidity or to implement some types of investment strategies. Cash reserves should be held in the custodian's money market fund, short-term maturity Treasury securities, and insured savings instruments of commercial banks and savings and loans.

Actions that may cause a significant deviation from these investment guidelines should be brought to the attention of the Committee and the consultant by the investment manager prior to execution. Such actions may be authorized by the Committee if it determines they do not constitute an inappropriate departure from the spirit of this Policy Statement. Similarly, unanticipated market action should also be brought to the attention of the Committee and consultant by the investment manager.

Exclusions

The Foundation's assets should not be invested in the following unless agreed to by the Committee pursuant to an approved strategy or specifically approved in writing by the Committee:

- Purchases of letter stock, private placements, or direct payments;
- Private placement convertible issues, also known as "144A" convertible securities;
- Commodities transactions unless by managers approved for that strategy;
- Investments by the investment manager in their own securities or of their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Committee); and
- Any other security transaction not specifically authorized in this Policy Statement.

Constraints

Time Horizon

The time horizon 10+ years.

Spending Policy

1. Purpose

The purpose of the New Mexico Highlands University Foundation Spending Policy is to govern spending from permanently restricted, endowed funds held by the Foundation for its benefit and the benefit of New Mexico Highlands University. The Spending Policy is intended to be applied in concert with the Foundation Investment Policy Statement and is reviewed periodically by the Board and Finance Committee. The Spending Policy is designed to ensure that:

- Donors creating an endowed fund can be assured that their funds are appropriately managed;
- Donor contributions are used appropriately for the benefit of the New Mexico Highlands University and Foundation;
- Principal contributions to endowed funds are preserved where directed by the donor; and,
- Funds achieve the purpose directed by the donor.

2. Fund Distributions

The Foundation recognizes the need for distributions for the benefit of the beneficiaries of endowed funds. The Foundation believes that the charitable purpose of the endowed funds require every effort to distribute as much from the endowed funds as is consistent with overall investment objectives as defined in the Investment Policy, and to make annual distributions wherever possible, unless otherwise directed by the donor or this policy. Consistent with those goals, distributions from the Fund shall be made as follows:

a. **Pooled Endowment Fund**: All Foundation endowed funds may be aggregated for investment purposes, so long as a calculation and accounting of the principal and activity related to each fund is maintained; earnings, gains, losses, dividends, distributions, interest, and all other additions to or losses from the pooled fund shall be allocated on a pro-rata basis, taking into account the date of establishment of each fund and its amount, to each discrete fund as maintained in Foundation records.

b. **Annual Distribution Calculation**: Earnings, gains, losses, dividends, or other additions to or losses from the pooled endowment fund shall be calculated quarterly and distributed on a pro rata basis to each endowed fund. The amount available annually for distribution shall be calculated annually, as of December 31st, and shall be calculated as follows:

    i. For funds with a principal balance of $10,000 or more and that were established at least three (3) years prior to the date of calculation, the annual amount available for distribution shall be 5% of the average of the fund balance over the past twelve (12) quarters.
    ii. For funds with a principal balance of $10,000 or more and that were established less than three (3) years prior to the date of calculation, the annual amount for distribution shall be recommended by the Finance Committee to the Board;
    iii. For funds with a principal balance of less than $10,000, the annual amount for distribution shall be recommended by the Finance Committee to the Board.

c. **Foundation Management Fee**: The 1% annual management fee assessed by the Foundation shall be calculated once annually, on December 31st, and allocated on a pro rata basis to each endowed fund. This fee may be assessed even though no actual distributions from a particular endowed fund are made in that year.

d. **Exceptions**: Regardless of the above guidelines. The Finance Committee may recommend, and the Board may approve, an annual distribution calculation higher or lower than specified above, if, after considering the factors set forth below, and specifically documenting its consideration of those factors, the Finance Committee and the Board believe that a higher or lower annual distribution calculation would best serve the charitable purposes of the endowed funds. Both the Finance Committee and the Board 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:

- The duration and preservation of the endowed funds;
- The purposes of the NMHUF and the endowed funds;
- General economic conditions;
- Possible effects of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the NMHUF; and
- The Investment Policy of the NMHUF.

3. <u>Review</u>

The Finance Committee shall review and reaffirm or update this Spending Policy no less than every two (2) years.

<u>Tax, Legal / Regulatory and Unique Considerations</u>

The Foundation is not subject to federal or state income taxes.

The Foundation is subject to the following regulation(s):

-State laws & regulations
-UPMIFA

<u>Performance Evaluation</u>

As noted above, a Consultant should be retained to provide quarterly performance measurement reports and the Committee should monitor the Foundation's performance on a quarterly basis. The Board and Committee will evaluate the Foundation's success in achieving the investment objectives outlined in this Policy Statement over a three- to five-year time horizon and a full market cycle.

The Foundation's (and investment managers') performance should be reported in terms of rate of return (time-weighted and dollar-weighted) and changes in dollar value. At the time of retention, the Committee and investment manager(s) will agree to appropriate benchmark(s). The returns should be compared to these appropriate market indexes for the most recent quarter and for annual and cumulative prior time periods. The Foundation's asset allocation should also be reported on a quarterly basis.

Risk as measured by volatility, or standard deviation, should be evaluated after twelve months of performance history have accumulated. An attribution analysis should also be performed by the consultant to evaluate how much of the Foundation's investment results are due to the investment managers' investment decisions, as compared to the effect of the financial markets. This analysis will use the policy index as the performance benchmark for evaluating both the returns achieved and the level of risk taken for the total portfolio and the individual investment managers.

Guidelines for Corrective Action

The Board and Committee recognize the importance of a long-term focus when evaluating the performance of investment managers. The Committee understands the potential for performance over short-term periods to deviate significantly from the performance of representative market indexes. The Board and Committee will not, as a rule, terminate an investment manager on the basis of short-term performance. If the investment manager is sound and is adhering to its investment style and approach, the Committee will allow a sufficient interval of time over which to evaluate performance.

The Committee expects that the consultant will provide guidance to help it determine an appropriate length of time. The investment manager's performance will be viewed in light of the firm's particular investment style and approach, keeping in mind at all times the Foundation's diversification strategy as well as the overall quality of the relationship. The Board and Committee, however, may require an extra level of scrutiny, or consider termination, of an investment manager based on factors such as:

- Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account;
- Any legal or regulatory action taken against the manager;
- Any material servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Meetings and Communications of this Investment Policy Statement;
- Violation of the terms of the contract or changes to agree upon services without prior written approval of the Committee;
- Significant style drift from the intended investment style that the manager was engaged to implement;
- Lack of diversification.

The investment manager may be replaced at any time as part of an overall restructuring of the portfolio or any other reason whatsoever.

Meetings and Communications

- As a matter of course, each investment manager should promptly communicate to the Committee and the Foundation's consultant any material changes in the investment manager's outlook, investment policy, and tactics.
- Each investment manager should be available on a reasonable basis for telephone communication when needed.
- Any material event that affects the ownership of each investment management firm, any brokerage affiliation of such firm, its key investment personnel, or its management must be reported promptly to the Committee and the Foundation's consultant.
- The Committee should obtain and review written performance measurement reports not less than quarterly.
- The consultant should generally meet with the Committee in person quarterly.