

**Muhlenberg College
Endowment Fund**

STATEMENT OF INVESTMENT POLICY

JANUARY 2015

Statement of Investment Policy for the Muhlenberg College Endowment Fund

INTRODUCTION AND PURPOSE

The intent of this Statement is to articulate an investment strategy with specific parameters that reflect the philosophy of the Board of Directors (the “Board”), thereby providing the Finance and Investment Committee (the “Committee”) with clearly defined policies and objectives. Although these policies and objectives are intended to govern investment activity, they are intended to be sufficiently flexible in order to be practical.

INVESTMENT PHILOSOPHY STATEMENT

The following statements represent the investment principles and philosophy governing the investment of funds held by the Muhlenberg College Endowment Fund (the “Fund”). These statements describe the core values and beliefs that form the basis for investment decision making.

These commonly held fundamental investment beliefs are:

1. That the single most important decision that the Committee makes is the long-term asset allocation decision. As a result, nearly all of the absolute levels of investment returns are attributable to the Committee’s decisions regarding asset allocation, not manager implementation.
2. That the capital markets are mean-reverting by nature. The Committee will therefore determine long-term strategic asset class allocations and acceptable ranges therein. The Consultant/Outsourced CIO will rebalance to those allocations within approved ranges, based on market conditions and outlook.
3. That the achievement of the Fund’s long-term investment goals necessitates that the investment strategy be based on using a combination of asset classes (and sub-asset classes) that has a reasonable probability of achieving the Fund’s goals. As a result, the Committee will periodically conduct asset allocation studies to assess the probability of achieving its long-term goals.
4. That market timing is ineffective as a market strategy for institutional funds. As a result, the Committee will remain fully invested in all long-term mandates and avoid interest rate anticipation as the primary means of adding value in fixed income mandates.

5. That some asset classes are inefficient and active managers can clearly add value. Other asset classes, most notably the domestic large-cap equity market, are more efficient. As a result, the Committee will allocate assets between active and passive (index) allocations based on its ability to identify active managers that can add value net of fees and expenses.
6. That it is necessary to use long time frames and appropriate benchmarks to fairly evaluate active manager performance. Active managers are, by definition, different than a passive index. Differences in manager styles (growth, value) and market capitalization will have multi-year cycles. Additionally, active managers may be hired specifically to have different risk characteristics than popular indices. As a result, even the best performing managers will have periods of both under- and out-performance relative to popular indices. In establishing individual manager investment objectives and in evaluating manager performance:
 - a. The Committee will use long time frames (rolling 3- and 5-year periods),
 - b. The Committee will set appropriate investment objectives using relevant style and capitalization benchmarks,
 - c. The Committee will evaluate managers on a risk-adjusted basis.
7. Investment implementation should be cost and resource effective. When evaluating new and current asset classes, managers and implementation strategies, the Committee will evaluate both the implementation and monitoring costs and requirements, as well as the incremental benefits in terms of both risk and reward to the funds. The Committee will utilize only those investment strategies that are expected to provide meaningful benefits to the funds, net of implementation and monitoring costs and risks.

DELEGATION OF RESPONSIBILITIES

Relationship between Board and the Investment Committee

The Board is responsible for the overall stewardship of the Fund. The Board has delegated to the Committee the responsibility to oversee the Fund's investment activities on the Board's behalf.

The Committee has the responsibility to ensure that the assets of the Fund are managed in a manner that is consistent with the policies and objectives ratified by the Board. In so doing, the Committee will comply with all applicable laws.

The Committee members are required to discharge their duties solely in the interest of the Fund and for the exclusive purpose of meeting the financial needs of the Fund. The Committee is authorized to engage the services of Investment Managers who possess the necessary specialized research capabilities and skill to meet the investment objectives and guidelines of the Fund. The Committee will require the Investment Managers to adhere to any policies adopted by the Board.

Finance and Investment Committee

By action of the Board of Directors (April 28, 2006), the Committee is charged with the following investment related responsibilities and duties:

1. Arrange for the investment, reinvestment and the supervision of the funds of the College; and
2. Determine what portions of the funds of the College shall be invested in bonds, stocks and other types of investments; and
3. Advise the Board and the Executive Committee from time to time regarding the investment policies and results of the College; and

Based on the responsibilities listed above, the Committee has determined their investment job description to be as follows:

The Committee's responsibilities include:

1. Developing and recommending to the Board investment objectives that are consistent with the financial needs of the Fund, and the policy asset allocation consistent with meeting those objectives;
2. Selecting investment managers, custodians and Consultant/Outsourced CIO, as necessary;
3. Reviewing and evaluating investment results in the context of predetermined performance standards, and implementing corrective action as needed;
4. Recommending Spending Rate guidelines to the Board; and
5. Determining policy related administrative issues such as social constraints, proxy voting, securities lending and directed commissions.

Consultant/Outsourced CIO ("C/OCIO")

The Committee may elect to engage an independent investment-consulting firm to assist the Committee's activities. The C/OCIO is expected to be proactive in making changes in investment strategy, asset allocation (within the ranges previously approved by the Investment Committee), and investment managers if the situation warrants change. The C/OCIO's responsibilities include:

1. Assisting in the development of investment policies, objectives, and guidelines, including providing general information and/or training to the Committee and/or the Board on such matters;

2. Preparing asset allocation analyses as necessary and recommending asset allocation strategies with respect to the Fund's objectives;
3. Recommending Investment Managers (including search and selection);
4. Preparing and presenting performance evaluation reports in accordance with CFA Institute Code of Ethics and Standards of Professional Conduct;
5. Attending Committee meetings to present evaluation reports no less than semi-annually and at other meetings as requested;
6. Reviewing contracts and fees for both current and proposed Investment Managers and Custodians;
7. Providing research on specific issues and opportunities, and assisting the Committee in special tasks;
8. Rebalancing portfolio as needed, staying within asset allocation ranges approved by the investment committee
9. Communicating investment policies and objectives to the Investment Managers, and monitoring their adherence to such policies and reporting all violations;
10. Notifying the Committee and Staff of any significant changes in personnel or ownership of the consulting firm;
11. Notifying the Committee and Staff of any significant changes in portfolio managers, personnel or ownership of any investment management firm hired by the Fund;
12. Notifying the Committee and Staff of any litigation or commencement of a regulatory administrative proceeding or enforcement action in which any Investment Manager is involved; and
13. Overall, being proactive with the Administration of the Fund and the Committee in the management of the Fund.

Investment Managers

Investment Managers are expected to pursue their own investment strategies within the guidelines created for the manager in accordance with the Fund's asset allocation strategy and manager selection criteria. Coordination of the guidelines for the individual managers assures the combined efforts of the managers will be consistent with the overall investment objectives of the Fund.

The Investment Managers' responsibilities include:

1. Investing assets under their management in accordance with agreed upon guidelines and restrictions;
2. Exercising discretionary authority over the assets entrusted to them, subject to these guidelines and restrictions;
3. Providing written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a monthly basis in addition to other information as requested by the Committee or C/OCIO;
4. Voting proxies for the assets under management (companies held within the portfolio) in the best interest of the Fund; and
5. Annually providing to the Fund either a copy of the investment advisor's form ADV Part II (SEC required disclosure document), a copy of the investment company's annual report, and/or a copy of the fund's updated prospectus (SEC requirement at the end of the fiscal year).
6. Notifying the Committee of any significant changes in results, portfolio management style, personnel or ownership of the investment management firm;
7. Notifying the Committee of any litigation or commencement of a regulatory administrative proceeding or enforcement action in which any Investment Manager is involved;

The Fund Custodian's responsibilities include:

1. Providing timely reports detailing investment holdings and Fund transactions to the Fund and C/OCIO.
2. Providing an annual summary report to the Fund and the C/OCIO on a timely basis following each fiscal year end. The report will include the following:
 - a. Statement of all property on hand;
 - b. Statement of all property received representing contributions to the Fund;
 - c. Statement of all sales, redemptions, and principal payments;
 - d. Statement of all distributions from and contributions to the Fund;
 - e. Statement of all expenses paid;
 - f. Statement of all purchases; and
 - g. Statement of all income.

3. Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of cash, etc.
4. Preparing additional Fund reports as requested by the Board, Committee, or C/OICIO.

INVESTMENT POLICIES AND OBJECTIVES

Objectives and Guidelines

1. **Return:** The long term objective of the Fund is to earn a return sufficient to preserve and enhance the purchasing power of the Fund for generations to come, as well as to provide for a predictable, reliable and continuous source of financial support to the College's operations. As a result, the annual return should at least equal the annual sum of distributions, inflation, administrative costs, and management fees. The Fund portfolio has adopted a "total return" investment approach. Current income is considered a secondary consideration.
2. **Risk:** The Committee will permit the Fund's portfolio to experience an overall level of risk consistent with the risk generally associated with the Committee's policy asset allocation.

Constraints:

1. **Liquidity:** The portfolio must offer sufficient liquidity to meet the spend rate of the Fund and its expenses.
2. **Time Horizon:** The Fund has a long life and should be managed with a time horizon much longer than the normal investment cycle. A time horizon of thirty to fifty years is appropriate. Providing for the Fund's needs over the time horizon is a high priority.
3. **Taxes:** The Fund is tax-exempt.

Return Measurement Objectives

The investment objectives of the Fund 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 Fund.

The following goals are designed to support achievement of the Fund's Investment Objective and are net of (after) investment expenses.

1. Total Fund assets should achieve an annualized rate of return equal to or greater than that of the Return Need over trailing five-year time periods.
2. Total Fund assets should return, over trailing twelve month periods, a nominal rate of return greater than or equal to a hypothetical index portfolio consisting of 70% MSCI ACWI and 30% Barclays Aggregate Bond Index.

Table A: Components of Return Need

	Return Need
Spending Rate (Includes Administrative Fee)	5.00%
Inflation Rate	2.50%
Long-Term Return Need (<i>Net of Fees</i>)	7.50%

Over time, the Fund will aim to achieve the total fund return goal while maintaining acceptable risk levels. To accomplish this goal, the fund will diversify its assets among several asset classes. **Table B** 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 (after) of investment expense.

1. Total Fund (portfolio) assets should attempt to return, over the Time Horizon, an annualized nominal rate of return greater than or equal to the long-term return objective, net of (after) all fees and costs.
2. Total Fund (portfolio) assets should attempt to return, over rolling twelve month periods, a nominal rate of return greater than or equal to a composite index created by combining various indices (**Table B**) in the same proportion as the Fund's target allocation (described in Asset Allocation section).
3. Each investment manager should attempt to return, over rolling twelve month periods, a nominal rate of return greater than or equal to the appropriate market index for that investment manager (**Table B**), with not more than commensurate risk. Traditional managers are also expected to, over a market cycle, rank in at least the 50th percentile in a representative peer universe.

Spending Rate Policy

Spending Rate

The Spending Rate of the Fund will be reviewed at least annually in light of evolving trends with respect to investment performance and the needs of the Fund, and will be adjusted as necessary.

Unless otherwise directed by the donor for a specific endowed gift, the annual Distribution rate shall not exceed 5% of the trailing 20-quarter average market value of the Fund, calculated as of December 31st of the year immediately preceding the beginning of the College's fiscal year. Spending on a per unit basis will not decrease from the previous year subject to a 5.5% cap of the 20 quarter moving average market value.

Total Return Policy

The Board has adopted a "total return" approach to calculating investment returns.

In recognition of these facts, the Committee will consider the Fund's total return from both income and net realized and unrealized capital gains when recommending the Spending Rate Policy. When distributions are to be made, they will be withdrawn from the Fund regardless of the portion of the total return that is from capital gains or from income, subject to applicable gift agreement restrictions.

Asset Allocation

The single most important decision made by the Committee is the Policy Asset Allocation decision. Investment research has determined that a significant portion of a portfolio's investment behavior can be attributed to: (1) the asset classes/styles which are employed by the Fund; and (2) the weighting of each asset class/style.

It is the responsibility of the Committee to identify the Policy Asset Allocation that offers the highest probability of achieving the Fund's Investment Objectives. The Committee, with guidance and recommendations from their C/OCIO, shall review the asset mix on an ongoing basis and recommend revisions as necessary.

The Policy Asset Allocation shall be determined based on a comprehensive asset allocation study completed by the Consultant and reviewed from time to time by the Committee. The Policy Asset Allocation of the Fund, as presented in **Appendix A**, is designed to give balance to the overall structure of the Fund's investment program over the Time Horizon. However, many factors over time may necessitate an asset allocation review and possible rebalancing. These factors include an ongoing assessment by the Consultant and the Committee of the comparative long-term outlook for all available types of asset classes and styles.

Permissible Investments

The Policy Asset Allocation of the Fund is expected to include a wide range of asset classes. These asset classes and their relative comparative indices are displayed below.

TABLE B: COMPARATIVE INDICES FOR INVESTMENT MANAGERS

Asset Class	Comparative Index
Equity	
<i>Domestic Equity</i>	Dow Jones U.S. Total Stock Market Index
U.S. All Cap Stocks	Wilshire 5000
U.S. Large Stocks	S&P 500
U.S. Large Value Stocks	Russell 1000 Value
U.S. Large Growth Stocks	Russell 1000 Growth
U.S. Large Quality Stocks	S&P 500
U.S. Mid Stocks	S&P MidCap 400
U.S. Small Stocks	Russell 2000
U.S. Small Value Stocks	Russell 2000 Value
U.S. Small Growth Stocks	Russell 2000 Growth
U.S. Real Estate Investment Trusts	Wilshire REIT Index
<i>International Equity</i>	MSCI ACWI - ex U.S.
International Large Stocks	MSCI EAFE
International Small Stocks	Citigroup EMI EPAC
Emerging Market Stocks	MSCI Emerging Markets
Fixed Income	
Domestic Fixed Income	Barclays Aggregate
Global Fixed Income	Citigroup World Government Bond
US Inflation Protected Fixed	Barclays U.S. TIPS
US High Yield	Citigroup High Yield
Emerging Market Bonds	JPM Emerging Market Bond
Cash Equivalents	U.S. Treasury Bill
Alternatives	
Private Equity	Venture Economics
Absolute Return (Hedge Funds)	HFR Fund of Funds
Real Assets	Multiple Indices

Other Non-Endowment Assets

The Board may, from time to time, establish investment portfolios outside of the Fund. Asset allocation and investment guidelines for these portfolios will be developed as needed and, when appropriate, in consultation with the donor.

Investment Policies for Investment Managers

The following are performance goals and constraint guidelines placed on individual managers within specific asset classes:

All Traditional Managers

1. Index (passive) managers shall be terminated if performance or volatility significantly differs from that of the benchmark.
2. Active managers may be terminated due to philosophical changes, management turnover, poor long-term investment performance (absolute or peer relative), or other material changes.

Alternative Investments

1. Alternative investment managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers. Instead, the Committee may choose to terminate a manager, subject to the manager's liquidation policy, if they are dissatisfied with the manager and/or his strategy.

Other

1. *Securities Lending:* Investment Managers (via a written contract with the Fund), may engage in securities lending, or the "loan" of the Fund's securities in return for interest, to broker dealers as a means of enhancing income.
2. *Related Party Transaction:* The Fund will not loan funds to related parties, defined as an officer, Committee member, employee, or donor, either current or prospective.

Procedure for Revising the Statement of Investment Policy

This Statement of Investment Policy will be reviewed at least annually by the Committee. The Board must approve material changes to the Statement. Any deviation from the Policy Asset

Allocation of the combined asset sectors (i.e., total equities, total fixed income, or total alternative investments) would represent a material change and shall be approved by the Board.

Conflicts of Interest

All persons responsible for investment decisions or who are involved in the management of the Fund or who are consulting to, or providing any advice whatsoever to the Committee, shall disclose in writing at the beginning of any discussion or consideration by the Committee, any relationships, material beneficial ownership, or other material interest(s) which the person has or may reasonably be expected to have, with respect to any investment issue under consideration. The Committee may require such persons to remove themselves from the decision-making process.

Any members of the Committee responsible for investment decisions or who are involved in the management of the Fund shall refuse any remuneration, commission, gift, favor, service or benefit that might reasonably tend to influence them in the discharge of their duties, except as disclosed in writing to and agreed upon in writing by the Committee. The intent of this provision is to eliminate conflicts of interest between committee membership and the Fund. Failure to disclose any material benefit shall be grounds for immediate removal from the committee. This provision shall not preclude the payment of ordinary fees and expenses to the Fund's Custodian(s), Investment Managers, or C/OCIO in the course of their services on behalf of the Fund.

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The foregoing Statement of Investment Policy was approved at a meeting of the Board of Directors on this 22nd day of October, 2015.

Signatures:

Chairman, Board of Directors

Chairman, Investment Committee

APPENDIX A**STRATEGIC POLICY**

Muhlenberg College			
Asset Class	Minimum Asset Allocation (%)	Midpoint (%)	Maximum Asset Allocation (%)
Domestic Equities	13	18	23
International Developed Equities	9	14	19
Emerging Market Equities/Debt	3	8	13
Private Equity/Special Situations	7	12	17
<i>Total Growth Assets</i>	<i>47</i>	<i>52</i>	<i>57</i>
Cash	0	0	5
US Broad Fixed Income	6	11	16
Global Fixed Income	0	5	10
Hedge Funds	10	15	20
<i>Total Risk Reduction Assets</i>	<i>26</i>	<i>31</i>	<i>36</i>
US Inflation Protected Fixed	0	3	8
Real Assets	9	14	19
<i>Total Inflation Protection Assets</i>	<i>12</i>	<i>17</i>	<i>22</i>