

**THE REED INSTITUTE
DBA REED COLLEGE
INVESTMENT POLICY STATEMENT FOR THE
ENDOWMENT FUND**

Prepared and adopted by the Investment Committee
Approved by the Board of Trustees, October 7, 2017

I. PURPOSE

The purpose of The Reed College Investment Policy Statement is to establish the objectives and procedures for the overall management, investment strategies and governance of the Reed College Endowment (hereinafter, the “Endowment”). This policy is intended to permit sufficient flexibility to capture investment opportunities, yet provide parameters that ensure prudence and care in the execution of the investment program.

This policy is issued for the guidance of the college’s Board of Trustees (hereinafter, the “Trustees”), investment committee members, investment staff, and investment consultants for oversight of the Endowment. It also states the standards and disciplines adopted so that the Trustees and the investment committee may effectively evaluate the performance and operations of the Endowment.

II. FIDUCIARY STANDARDS

The Trustees, the investment committee, the Reed College Vice President/Treasurer, the investment staff of the college, investment managers and consultants shall exercise their responsibilities with respect to the Endowment in compliance with the requirements of, and subject to future amendments to, the Oregon Uniform Prudent Management of Institutional Funds Act (the “UPMIFA”), signed into law on June 22, 2007 and effective as of January 1, 2008, which regulates the investment of endowment funds held by charitable institutions. (Appendix A)

III. DUTIES AND RESPONSIBILITIES

A. Board of Trustees. Consistent with the Bylaws of Reed College, the Trustees exercise ultimate responsibility for overseeing the management, operation and maintenance of the Endowment. The Trustees adopt, and from time to time shall review and revise, as appropriate, the Investment Policy Statement. The Trustees retain the authority to review and to modify or rescind any decision made by the investment committee pursuant to the authority delegated to it by the Trustees. The Chairperson of the Trustees will appoint members to the investment committee.

B. Investment Committee. The investment committee shall be constituted in accordance with the Bylaws of Reed College. The investment committee shall provide oversight of the Endowment and other investment funds of the college. The investment committee shall formulate investment policies, objectives and procedures, approve investments, investment managers, consultants and other service providers directly related to the management and oversight of the Endowment, and monitor the investment portfolio. The investment committee shall regularly report to the Trustees on investment performance and investment policy recommendations.

C. Vice President/Treasurer. The Vice President/Treasurer has operational oversight and with the college President, legal signing authority to carry out the agreed-upon actions of the investment committee. The Vice President/Treasurer is an ex-officio member of the investment committee and shall be kept informed in a timely manner of the activities and actions of the investment committee.

D. Investment Staff. The college's investment staff shall report to the Vice President/Treasurer and assist the Vice President/Treasurer in his/her duties related to the Endowment.

E. Investment Managers. The investment committee may retain external investment advisors to manage Endowment assets. The investment managers may be delegated investment discretion, consistent with specified objectives and guidelines, to manage Endowment assets. Investment managers operate under a formal contract which may include investment guidelines that specify their responsibilities, risk parameters and performance expectations.

F. Consultants. The investment committee may utilize the services of investment consultants and other service providers to assist the investment committee and investment staff in their duties and responsibilities. The investment committee shall periodically evaluate the performance of such consultants and service providers and take appropriate action as to whether to continue or replace such consultants. Insofar as applicable, the consultants shall comply with the standards set forth in this Investment Policy Statement.

IV. INVESTMENT OBJECTIVES

The Endowment's investment objective is to preserve and enhance the Endowment's total value so that distributions from the Endowment can provide a reliable and growing revenue stream to support the college's operations. Further, the Trustees and investment committee recognize that a reasonable and appropriate level of investment risk is necessary to achieve this objective.

The Endowment performance, net of all fees, will be evaluated relative to the performance of the following benchmarks:

- A rate of return equal to five percentage points in excess of the rate of inflation as measured by the Higher Education Price Index (HEPI).
- The investment policy benchmark, which is the sum of each asset class benchmark return multiplied by its respective Endowment asset allocation target. The investment policy benchmark permits Trustees and the investment committee to compare the Endowment's actual performance to a passively managed proxy, and to measure the contribution of active investment management and policy implementation.
- The median endowment rate of return of the universe of peer institutions as determined by the Trustees.

V. SPENDING POLICY

The Endowment spending policy is determined by the Trustees. The Trustees shall approve a spending rate annually as part of the budget process. The purpose of the endowment spending policy is to provide a relatively stable source of revenue to support the college's operations.

VI. ASSET ALLOCATION AND GUIDELINES

A. Time Horizon. The Endowment's investment horizon is long-term. Interim fluctuations should be viewed within this perspective. Similarly, the underlying capital market assumptions of the Endowment's asset allocation plan are based on this long-term perspective.

B. Risk Tolerance. The Trustees and investment committee recognize the challenge of achieving the Endowment's investment objectives in light of the uncertainties and complexities of investment markets. They also recognize that reasonable levels of investment risk are necessary to achieve long-term investment objectives.

C. Liquidity. The Trustees and investment committee recognize that while the investment objective is to preserve and enhance the Endowment's total value, there must be sufficient Endowment liquidity to meet budgetary needs, un-drawn capital commitments to private investment funds, and any other near term financial need. As such, Reed's policy is to maintain sufficient amounts of capital in highly liquid investments and/or cash in order to cover 50% of the sum of unfunded private investment commitments plus two years of the annual budgetary draw.

D. Asset Allocation and Rebalancing. The college has identified a peer endowment reference group of liberal arts colleges with endowments between approximately \$500 million and \$1 billion. The college will set asset allocation targets annually based around the average asset allocation of this peer endowment reference group.

Market fluctuations, manager availability, cash flows and liquidity issues may cause the actual asset allocation to diverge from the target allocation from time to time. The investment committee will review departures from the asset allocation targets and make rebalancing decisions as appropriate.

E. Diversification. The Endowment will be diversified across asset classes and within each asset class, to provide reasonable assurance that no single security, asset class, or manager will have a disproportionate impact on the overall portfolio. No single active investment management organization will manage more than 15 percent of the Endowment's assets.

F. Active Management. The Trustees expressly endorse the use of active management in sectors of the market where, because of imperfect information or otherwise, skilled, active investment management holds the promise of outperforming market averages. In efficient asset classes where it is difficult for active investment managers to achieve outperformance, passive management may be used.

G. Investment Strategy Material. A manager's investment strategy material may delineate the performance expectations and risk parameters of the investment approach. The investment strategy material may also specify the typical characteristics of the portfolio. This material will be used to monitor a manager's adherence to the specified investment style and portfolio level risk.

VII. INVESTMENT MANAGER SEARCHES

Investment managers shall be selected on the basis of a systematic and disciplined search process. This may include, but is not limited to, the review of manager questionnaires, offering memoranda, limited partnership agreements, or other governing instruments. These materials may also be reviewed by consultants, outside counsel, or other individuals/ organizations that the investment committee deems appropriate. The investment committee and investment staff will normally be expected to interview potential managers. In addition, the investment committee and investment staff may undertake site visits, interview references, and conduct any other due diligence it deems prudent and appropriate to the investment manager under consideration.

A. **Liquid Investment Portfolio.** A majority vote of those investment committee members participating, but no fewer than two votes, is required to hire an investment manager, to invest additional funds with a manager, to withdraw funds from a manager, or to terminate a manager. Appropriate written documentation shall be retained indicating the basis upon which any of the foregoing decisions were made.

B. **Private Investment Portfolio.** As described in section VI.D, the target portfolio asset allocation is set by the investment committee. The consultant will propose annual commitment budgets for each of the private investment portfolio asset classes so that the target allocations are maintained. These commitment budgets are agreed to or modified by the investment committee. The investment committee may also set tactical themes or opportunities to express via the private asset investments and budgets. Working collaboratively, the consultant, Reed investment staff, and the investment committee will develop a forward calendar of target funds for investigation and potential commitment each vintage year.

Reed investment staff and the consultant will conduct a prudent and appropriate due diligence analysis of each target fund. Investment staff will analyze target fund opportunities and make recommendations to the investment committee on commitments to target funds, taking into consideration expected risks and returns, and the annual private investment portfolio asset class budgets. Investment staff will send recommendation materials to the investment committee via electronic mail with a voting deadline. Investment committee members may vote via electronic mail to either approve or decline the recommendation from Reed investment staff. In the absence of objections, with the members of the investment committee having been provided materials on a fund for their review and consideration, the investment staff recommendation is deemed approved.

VIII. INVESTMENT MONITORING PROCESS

The investment committee and investment staff will regularly monitor the Endowment. The investment monitoring process will include, but is not limited to, the following factors: consistency of investment philosophy; return relative to objectives; investment risk; failure to comply with the applicable investment style, guidelines, objectives, and fees; a material change in ownership or personnel; and any violations or potential violations of the terms of its investment manager agreement or other applicable laws and regulations. At least one member of the investment

committee, investment staff or consultant will meet with the Endowment's investment managers on an annual basis where practicable. Investment manager performance shall be tracked on a monthly and quarterly basis, but manager performance shall be evaluated over longer periods of time.

IX. EXERCISE OF SHAREHOLDER RIGHTS

The investment committee recognizes that publicly traded securities and other assets of the Endowment may include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation. The investment committee requires of itself and its external managers the prudent management of these assets for the exclusive purpose of enhancing the value of the Endowment for its operations and programs.

X. INVESTMENT RESPONSIBILITY POLICY

The Investment Responsibility Policy, adopted by the Trustees on January 13, 1978, and attached hereto as Appendix B, is expressly incorporated into this Investment Policy Statement. Its provisions remain in effect except insofar as any provision is in direct conflict with the provisions of this Investment Policy Statement, in which case the provisions of this Investment Policy Statement shall govern.