

BOARD OF TRUSTEES
UNIVERSITY OF THE VIRGIN ISLANDS
Investment Policy Resolution

Resolution approving the investment policy of the University of the Virgin Islands

WHEREAS, the University of the Virgin Islands (UVI) has a fiduciary responsibility to fulfill its overall mission ethically and in compliance with applicable policies, laws, regulations, rules, contracts and grant requirements, and donor restrictions; and

WHEREAS, the UVI has deemed it necessary to establish a formal investment policy to ensure the prudent investment of its quasi-endowment funds; and

WHEREAS, the UVI is committed to investing and managing its quasi-endowment funds in accordance with high standards of fiduciary duty and ensuring the maximum possible return consistent with reasonable standards of responsible financial management and investment; and

WHEREAS, on October 15, 2012, the Finance and Budget Committee of the Board of Trustees voted to recommend to the Board of Trustees the approval of an investment policy incorporated into this resolution as "Exhibit A", effective November 1, 2012.

NOW THEREFORE BE IT RESOLVED AS FOLLOWS:

- A. That, the investment policy, incorporated into this resolution as "Exhibit A", effective November 1, 2012, is hereby approved.
- B. That the President and Vice-President for Administration and Finance are authorized to take such actions as are necessary and proper to implement this resolution.

CERTIFICATION

The Undersigned does hereby certify that the foregoing is a true and exact copy of a resolution of the Board of Trustees of the University of the Virgin Islands adopted at a meeting on October 27, 2012 as recorded in the minutes of said meeting.



Secretary of the Board

October 27, 2012

Date

SECTION VI: INVESTMENT POLICY

1.1 PURPOSE

The purpose of this document is to set forth the policies and procedures that shall guide the Finance and Budget Committee (the “Finance and Budget Committee” or the “Committee”) of the Board of Trustees (the “Board of Trustees” or the “Board”) of the University of the Virgin Islands (“University”) in investing, managing, using and otherwise administering UVI’s quasi-endowment funds (the “Fund”).

1.2 POLICY STATEMENT

It shall be a primary objective of the Statement to foster an effective working relationship between the University and its external managers, and to provide the University with a policy means to effectively evaluate the performance of the investment managers and oversee the management of the Fund in a prudent manner.

1. The investments of the Fund shall be diversified in accordance with Section 1. 6 (B) below, unless the full Board or, if so designated or authorized by the Board, the Finance and Budget Committee of the Board (the “Finance and Budget Committee” or the “Committee”), after appropriate deliberation, reasonably determine that because of special circumstances the purposes of the Fund are better served without diversification.
2. The Fund shall be managed in accordance with high standards of fiduciary duty and in compliance with applicable laws and regulations.
3. Standards for return, asset allocation and diversification shall be determined from a strategic perspective and measured over successive market cycles.

1.3 SCOPE AND APPLICABILITY

It shall be the charge of the Finance and Budget Committee, as authorized by the Board and as that authorization may be modified from time to time, to implement the management process and monitor the Fund in accordance with this Statement. The Finance and Budget Committee, acting pursuant to this authority and to instructions from the Board, shall have direct responsibility for the oversight and management of the Fund.

1.4 RESPONSIBILITY

A. Finance and Budget Committee

In addition to its management of the University’s Fund, the Finance and Budget

Committee shall, as more fully described herein, monitor all investment transactions of the University, recommend policies and procedures to ensure the maximum possible return on the Fund consistent with reasonable standards of responsible financial management and investment; submit recommendations to the Board to improve the financial position of the Fund; and subject to the policy directives of the Board, shall manage the Fund, recommend long-term investment policies and objectives, and receive on the Board's behalf, quarterly, annually and other periodic investment results from all investment managers, financial advisors or other similar professionals retained in the management of the Fund.

In fulfilling its responsibilities under this Statement, the Finance and Budget Committee shall, among other activities, recommend to the Board the hiring and dismissal of investment managers, fiscal agents and advisors.

B. Written Reports

Written reports on the Fund shall be provided quarterly to the Finance and Budget Committee by any and all investment managers, financial advisors or other similar professionals. The Vice President for Administration and Finance/CFO of the University shall be responsible to the Finance and Budget Committee for maintaining detailed records of all invested funds and for carrying out the investment policies and procedures established by the Board.

C. Investment Consultants

Investment Consultants retained in the management of the Fund shall:

1. Review and recommend changes which are advisable to refine investment policy
2. Suggest further objectives and guidelines for policy (including spending policy)
3. Help plan asset allocation
4. Assist in the selection of investment managers
5. Evaluate investment managers (historic and ongoing) at least on a quarterly basis
6. Provide written reviews of investment managers' performance and growth of Foundation's assets at least quarterly
7. Help select and evaluate a custodial bank
8. Provide investment strategy reports to the Committee or to the Board, as may be necessary.

D. Policy Review

This Statement shall be reviewed periodically by the Finance and Budget Committee and any recommendations for changes thereto shall be presented to the Board of Trustees of the University.

1.5 GOALS AND OBJECTIVES

A. Objectives of the Fund

The Fund has a long-term investment horizon. The primary investment objectives of the Fund are to:

1. Maintain, and strive to increase, the real purchasing power of the Fund after inflation, costs and spending (i.e., achieve “intergenerational equity”);
2. Provide a stable source of liquidity and financial support for the mission of the University.

B. Investment Philosophy

While acknowledging the importance of preserving capital, the Board of Trustees also recognizes the necessity of accepting risk if the Fund is to be able to meet its long-term investment goals. It is the view of the Board of Trustees that choices made with respect to asset allocation will be the major determinants of investment performance. The Committee shall, as may be authorized by the Board from time to time, seek to ensure that the risks taken in the investment of the Fund are appropriate and commensurate with the Fund’s goals and objectives.

1.6 INVESTMENT POLICIES AND PROCEDURES

A. Operating Guidelines

The Fund shall be managed in accordance with the Operating Guidelines described in this section. Once the Operating Guidelines have been approved by the Board, the Finance and Budget Committee shall have the authority to manage the Fund within the Operating Guidelines without further authorization from the Board.

B. Investment Policy

– *Asset allocation.* The Committee shall, consistent with the above sections, invest the Fund using an asset allocation of 60 percent equity and 40 percent fixed income. The allocation is based on the objectives of the Fund as set forth above.

– *Illiquid investments.* Because of their long-term nature, investments in and commitments to illiquid investment strategies, including but not limited to private capital,

private equity real estate, natural resources, distressed debt and other similar private investments, shall be analyzed and discussed by the Committee.

– *Targets and ranges.* The asset allocation shall be implemented using a policy portfolio with target allocations and ranges for each investment strategy. Due to the need for diversification and the longer funding periods for certain investment strategies, the Board recognizes that an extended period of time may be required to fully implement the asset allocation plan. It is expected that market value fluctuations will cause deviations from the target allocations to occur.

– *Rebalancing.* The purpose of rebalancing is to maintain the Fund’s policy asset allocation within the targeted ranges, thereby ensuring that the Fund does not incur additional risks as a result of having deviated from the policy portfolio. Rebalancing will take place on a portfolio basis to reduce expenses as far as practicable. More frequent tactical rebalancing of asset classes within their ranges will also be permitted in order to take advantage of shorter-term market conditions, as long as such changes or reallocations do not, in the opinion of the Committee, cause undue risk or expense to the Fund.

– *Standard of conduct.* In managing and investing the Fund, the Committee shall:

- act in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances;
- incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the University and the skills available to the University;
- make a reasonable effort to verify facts relevant to the management and investment of the Fund;
- consider the following factors, if relevant:
 - (a) general economic conditions;
 - (b) the possible effect of inflation or deflation;
 - (c) the expected tax consequences, if any, of investment decisions or strategies;
 - (d) the role that each investment, or course of action, plays within the overall investment portfolio of the Fund;

(e) the expected total return from income and the appreciation of investments;

(f) other resources of the University;

(g) the needs of the University and the Fund to make distributions and to preserve capital; and

(h) an asset's special relationship or special value, if any, to the charitable purposes of the University;

- make management and investment decisions about an individual asset not in isolation, but rather in the context of the Fund's portfolio of investments as a whole and as a part of the University's overall investment strategy, including the risk and return parameters set forth in this Statement.

– *Delegation.* Subject to any specific limitation set forth in a gift instrument, the Committee may delegate to an external agent the management and investment of all or part of the Fund to the extent that the University could prudently delegate under the circumstances. The Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in: (1) selecting an agent; (2) establishing the scope and terms of the delegation, consistent with the purposes of the University and the Fund; and (3) periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the scope and terms of the delegation. In this regard, the Committee shall engage qualified external professional investment managers that have demonstrated competence in their respective investment strategies. Consistent with this Statement, these managers shall have full discretion and authority for determining investment strategy, security selection and timing of purchases and sales of assets subject to the guidelines specific to their allocation.

– *Investment manager reporting and evaluation.* The investment managers responsible for the investment of the Fund's assets shall report quarterly on their performance. Reports shall include, at a minimum, the following information:

- Comparative returns for the Fund assets under management against their respective benchmarks.
- A complete accounting of all transactions involving the Fund during the quarter.

– Each investment manager shall review its portfolio with the Finance and Budget

Committee at least annually; these review meetings may be supplemented by such other meetings as the Committee may think necessary.

When possible, the Committee shall monitor and compare the Fund's performance relative to:

1. Absolute return objectives for the Fund
2. The respective benchmarks for each asset class or strategy in which the Fund is invested
3. A representative group of peer institutions identified by the Committee
4. A representative group of peer investment managers

C. Review of Investment Manager's Performance

The Finance and Budget Committee shall review the performance results of each investment manager periodically including:

1. Detailed scrutiny of the investment manager's process and philosophy;
2. Requiring the investment manager to present a detailed explanation of any poor performance to the Committee, and where appropriate to the Board.

The Committee shall report to Board any significant deviation from the performance objectives outlined in this Statement, and their recommendation, if any, for

1. Placing the investment manager on probation and allowing between two to four quarters for the investment manager's performance to be brought in line with stated objectives, or for the fund manager's performance to be otherwise evaluated;
2. Terminating the investment manager;

and on any changes required in the investment strategy, investment objectives, or Investment Policy Statement.

D. Asset Allocation, Investment Strategies, Guidelines and Restrictions

The Fund shall be diversified both by asset class and within asset classes. Within each asset class, investments shall be diversified further among economic sector, industry, quality and size. The purpose of this diversification is to provide a reasonable assurance that no single security or class of securities will have a disproportionate impact – positive or negative – on the overall performance of the Fund.

Prohibited Transactions

1. Investment managers are prohibited from entering into any transactions for the University which are not authorized by this Statement.
2. The purchase of securities on margin.
3. Direct purchase of single family or commercial mortgages.
4. Short sales
5. Direct loans or extension lines of credit to any interested party

E. Spending

– *Uses of the Fund.* Subject to the intent of a donor expressed in applicable gift instruments, as much of the corpus and earnings of the Fund as is deemed prudent by the Board of Trustees may be used for any purpose approved by the Board of Trustees.

In making that decision, the Board shall act in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances and shall consider, if relevant, the following factors:

- (1) the duration and preservation of the Fund;
- (2) the purposes of the University and the Fund;
- (3) general economic conditions;
- (4) the possible effect of inflation or deflation;
- (5) the expected total return from income and the appreciation of investments;
- (6) other resources of the University; and
- (7) the University's investment policy.

F. Investment Strategies, Guidelines and Restrictions

– *Equity Securities.* The purpose of equity investments, both domestic and international, in the Fund is to provide capital appreciation, growth of income, and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return goals. This component includes domestic and international common stocks, American Depositary Receipts (ADRs), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the-counter markets.

Public equity securities shall be restricted to high quality, readily marketable securities of corporations that are traded on the major stock exchanges, including NASDAQ, and have the potential for meeting return targets. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of respective asset

class profiles with reasonable market liquidity where customary. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to managers' discretion, subject to the standards of fiduciary prudence. However, investments in securities of issuers representing a single major industry (as determined by the Committee) shall not at time of investment exceed 10 percent of the Fund's total market value, and investments in securities of any one issuer shall not at time of investment exceed 5 percent of the Fund's total market value, unless approved by the Committee.

Within the above guidelines and restrictions, the Fund's investment managers shall have complete discretion over the selection, purchase and sale of equity securities.

– *Fixed Income Securities.* Domestic and international fixed income investments are intended to provide diversification and a dependable source of current income. Fixed income investments should reduce the overall volatility of the Fund's assets and provide a deflation or inflation hedge, where appropriate.

The fixed income asset class includes the fixed income markets of the U.S. and the world's other developed economies. It includes, but is not limited to, U.S. Treasury and government agency bonds, non-U.S. dollar denominated securities, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Also included are money market instruments such as commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations. The investment managers shall take into account credit quality, sector, duration and issuer concentrations in selecting an appropriate mix of fixed income securities. Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums.

Within the above guidelines and restrictions, the Fund's investment managers shall have complete discretion over the selection, purchase and sale of fixed income securities.

– *Cash and Equivalents.* The Fund's investment managers may invest in the highest quality commercial paper, repurchase agreements, U.S. Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the Fund's principal value. Investments in the obligations of a single issuer shall not at time of investment exceed 5 percent of the Fund's total market value, with the exception of the U.S. Government and its agencies.

Since the Finance and Budget Committee does not consider short-term cash equivalent securities to be appropriate investment vehicles for long-term portfolios, uninvested cash reserves shall be kept to a minimum, except where needed to comply with the Fund's liquidity parameters. However, such vehicles are considered appropriate

- (i) as a depository for income distributions from longer-term investments,
- (ii) as needed for temporary placement of funds directed for future investment to longer-term investment strategies and (iii) for contributions to the current fund or for current operating cash.

Within the above guidelines and restrictions, the investment managers shall have complete discretion over the selection, purchase and sale of cash equivalent securities.

– *Alternatives.* The following alternative strategies shall be permitted investments for the Fund, subject to the respective guidelines set forth in each section. Investments in alternative strategies shall not at time of investment exceed 25 percent of the Fund's total market value, unless approved by the Committee.

Marketable Alternative Strategies - Investments may include (among other strategies) equity-oriented or market-neutral hedge funds (i.e. long/short, macro event driven, convertible arbitrage, and fixed income strategies), which can be both domestic and international market oriented. These components may be viewed as equity-like or fixed income-like strategies as defined by their structures and exposures.

Private Capital - Investment allocations may include venture capital, private equity and international private capital investments, typically held in the form of professionally managed pooled limited partnerships. Such investments must be made through funds offered by professional investment managers.

Energy & Natural Resources - Investments may include oil, gas, and timber investments, typically held in the form of professionally managed pooled limited partnerships, as well as commodity-based investments. All such investments must be made through funds offered by professional investment managers.

Private Equity Real Estate - Investments may include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investments may be made only through professionally managed pooled real estate investment funds.

Distressed Debt - Investments may include the debt securities of companies undergoing bankruptcy or reorganization. Such investments may be made only through professionally managed funds.

– *Derivatives and Derivative Securities.* Certain of the Fund's managers may be

permitted under the terms of their specific investment guidelines to use derivative instruments. Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include (but are not limited to) futures, forwards, options, options on futures, warrants, and interest-only and principal-only strips. No derivative positions can be established that have the effect of creating portfolio characteristics outside of portfolio guidelines.

Examples of appropriate applications of derivative strategies include hedging market, interest rate, or currency risk, maintaining exposure to a desired asset class while making asset allocation changes, gaining exposure to an asset class when it is more cost-effective than the cash markets, and adjusting duration within a fixed income portfolio. Investment managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

Each manager using derivatives shall (1) exhibit expertise and experience in utilizing such products; (2) demonstrate that such usage is strategically integral to their security selection, risk management, or investment processes; and (3) demonstrate acceptable internal controls regarding these investments.

– *Investment Restrictions.* The Finance and Budget Committee may waive or modify any of the restrictions in these guidelines in appropriate circumstances. Any such waiver or modification shall be made only after a thorough review of the investment manager and investment strategy involved. An addendum supporting such waiver or modification shall be maintained as a permanent record of the Finance and Budget Committee. All such waivers and modifications shall be reported to the Board of Trustees at the meeting immediately following the granting of the waiver or modification.

Adherence to the restrictions in these guidelines shall be measured as of the time of initial investment, and shall be re-evaluated periodically. It is recognized that subsequent market action may result in the investment or strategy ceasing to adhere to these restrictions, through no fault of the University staff or the respective outside manager. In such a situation, the University and the manager shall make reasonable attempts to bring the investment or strategy back within adherence to these restrictions, bearing in mind the long-term interests of the University and the Fund and the desirability of avoiding harmful forced sales of assets.

Investments in mutual funds or commingled funds shall be reviewed and approved by the Finance and Budget Committee on a case-by-case basis and, if approved, may vary from this Statement. For each such mutual or commingled fund, the prospectus, offering memorandum or Declaration of Trust documents of the respective fund will govern the investment policies of the fund investments. While the Finance and Budget Committee

understands that such funds have their own stated guidelines which cannot be changed for individual investors, those guidelines should be similar in principle and spirit to the guidelines stated herein. To the extent that a mutual or commingled fund departs from any or all of such guidelines, the Finance and Budget Committee shall consider the possible consequences of that departure from the guidelines and be confident that the investment manager thoroughly understands the risks being taken, has demonstrated expertise in such investment strategies and has guidelines in place for monitoring their risk-adjusted performance.

(This Investment Policy Statement was developed using a Sample Traditional Investment Policy Statement Template provided by Commonfund)

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