



**Wayne State University Foundation**  

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**Statement of Investment Policy**

December 1, 2022

# WAYNE STATE UNIVERSITY FOUNDATION

## Investment Policy Statement

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### **I. Purpose**

This Investment Policy Statement (“IPS”) is intended to serve as a governing framework to guide the activities and decisions of the Board of Directors of the Wayne State University Foundation (the “Board”), the Investment Committee (the “Committee”) of the Board, University Staff (“Staff”) and an outsourced Chief Investment Officer (“OCIO”) in managing the assets of the Wayne State University Foundation Endowment (“WSUF Endowment” or “Endowment”). The Committee, with input from the OCIO, will review the IPS periodically to ensure that it accurately reflects the investment objectives and guidelines that are appropriate for effective management of the Endowment, as well as the desired governance framework. Revisions to the IPS may be recommended by the Committee and approved by the Board as necessary.

Circumstances that may prompt revisions include the following:

- changes in the risk profile of the WSUF Endowment or Wayne State University (“WSU”);
- fundamental, long-term changes in financial market structure or practices (short- and mid-term changes in financial markets will not normally require adjustments to the IPS); and
- other significant structural issues not currently anticipated by the IPS.

### **II. Roles and Responsibilities**

**Board of Directors.** The Board of Directors of WSUF has oversight of the Endowment. It is responsible for approving new members to the Committee and for approving the IPS and any future amendments to the IPS. The Board has authorized an OCIO to manage Endowment assets on a discretionary basis. The Board has designated the Committee to work with the OCIO and will designate specific responsibilities to the Committee. The specific responsibilities of the Board and Committee may evolve and will be consistent with broader governance decisions made by the Board. Annually, the Board of Directors of the WSUF will present a summary report on the Endowment portfolio to the Wayne State University Board of Governors.

**Investment Committee.** The Committee has detailed oversight of the WSUF Endowment and the OCIO. The Committee, in conjunction with the OCIO and subject to the supervision of the Board, will execute the following responsibilities:

- collaborate with the OCIO and, subject to Board approval, to develop investment guidelines and objectives for the investment of the

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- Endowment, including asset allocation target exposures, permissible ranges (i.e., minimum and maximum allocations to each asset class), and the benchmarks against which the performance of each asset class, and the portfolio as a whole, will be evaluated;
- reviewing the performance of the Endowment relative to stated investment objectives on a quarterly basis;
  - monitoring the OCIO to ensure the provider continues to be an appropriate discretionary manager of the Endowment assets;
  - working with the OCIO, prepare and submit an annual summary report to the WSUF Board of Directors in a format that can be presented to the Wayne State University Board of Governors;
  - communicating to the OCIO any changes at WSU or within the WSUF Endowment that may impact the investment objectives and guidelines of the Endowment;
  - review and recommend annual spending targets to the Board on at least an annual basis;
  - ensuring that appropriate policies and practices are in place to manage risks and safeguard assets; and
  - communicating to the Board, in conjunction with the OCIO, a regular summary of the portfolio and investment returns relative to stated investment objectives.

In fulfilling its responsibilities described herein, both the Board and the Committee shall act in accordance with the State of Michigan's version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Among other things, UPMIFA requires each person managing institutional endowment funds to do so in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

***University Staff.*** The Staff is responsible for overseeing the operations of the WSUF Endowment. Specific responsibilities include:

- providing administration, reporting, accounting, and audit support for Endowment operations;
- serving as the day-to-day contact with the OCIO, including communicating planned contributions and withdrawals;
- supporting constituent relationships;
- providing support to the Committee in achieving their above outlined responsibilities; and
- monitoring third-party service providers, including auditors and the custodian.

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***Outsourced Chief Investment Officer.*** The OCIO is charged with managing the WSUF Endowment in accordance with the investment guidelines and objectives established by the Board, and subject to the supervision of the Committee. Specific responsibilities include:

- advising the Board and Committee with respect to development of the investment guidelines and objectives;
- conducting periodic reviews of the investment guidelines and objectives as agreed with the Committee and recommending modifications as it deems appropriate;
- overseeing the implementation of the investment program, including the selection and monitoring of sub-advisers to manage separately managed sub-accounts of the Endowment, the selection and monitoring of commingled investment vehicles, and the direct investment management of assets not allocated to sub-advisers or investment vehicles;
- assisting the Staff in providing performance reporting;
- providing audit, tax, and constituent relations support to the Staff; and
- providing reporting and performance monitoring as necessary for the Board and the Committee to perform its oversight responsibilities.

### **III. Investment Philosophy**

The WSUF Endowment exists to support the mission of WSU in perpetuity. Accordingly, the investment philosophy reflects a disciplined, consistent, and diversified approach based on an asset allocation policy that is designed to achieve the longer-term investment objectives of the WSUF Endowment. A range of active and passive strategies may be employed. The OCIO manages the assets of the Endowment assigned to it on a discretionary basis in a manner consistent with the asset allocation targets and ranges adopted by the Board, which are set forth in Exhibit I to this IPS and reflected in an investment management agreement between the WSUF and the OCIO (the “Investment Management Agreement”). Any changes made to the asset allocation targets and ranges must be incorporated in an amendment to the Investment Management Agreement prior to implementation.

### **IV. Investment Objectives**

The WSUF Endowment investment objective is to preserve its purchasing power, while generating an annual total rate of return sufficient to produce the following results on average, over long periods of time, to the extent allowed by returns in the broad markets:

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1. Provide periodic distributions to WSU as determined by the Wayne State University Board of Governors;
2. Inclusive of the above, grow the value of the corpus of the Endowment at a minimum by the rate of inflation (as measured by CPI); and
3. Inclusive of 1. and 2., preserve the corpus of the Endowment, with the goal of growing the real value of the Endowment's assets, net of costs.

**Return Objectives.** The long-term return objective for the WSUF Endowment is to generate an average annual real return, net of inflation as measured by the Consumer Price Index and investment management fees of at least 5.5%. The Investment Committee has adopted asset allocation targets and ranges, set forth in Exhibit I, that are designed to meet this long-term objective provided that markets deliver returns consistent with normal economic conditions.

A benchmark index has been assigned to each asset class, as set forth in Exhibit I. The combination of the benchmark index assigned to each asset class (net of assumed passive management fees), weighted in accordance with the target allocation associated with the asset class, forms the "Policy Benchmark" against which the Endowment's overall performance will be measured. The Endowment seeks to achieve performance (net of management fees) that meets or exceeds the performance of the Policy Benchmark (net of assumed passive management fees and rebalancing costs) by 1.0% per annum over rolling five-year periods.

The Endowment will also be compared to the NACUBO (National Association of College and University Business Officers) survey of Endowments conducted annually. Specifically, the Endowment performance will be evaluated against NACUBO survey respondents with similarly sized endowments, as well as institutionally related foundations, for the one, three, five, and ten-year time periods. Other metrics like asset allocation and spending policy will also be evaluated.

**Risk Tolerance.** The investment plan for the Endowment is designed to achieve the above return objectives with a prudent level of risk. To allow the Committee to regularly monitor risk levels in the portfolio, the OCIO will provide the following risk metrics in the Endowment's quarterly investment reports:

- *Volatility* - as measured by standard deviation of returns
- *Drawdown* - measure of the maximum loss from a peak to a trough of the portfolio, before a new peak is attained
- *Sharpe Ratio* - measure of risk-adjusted return, calculated using standard deviation and excess return to determine reward per unit of risk
- *Sortino Ratio* - measure of risk-adjusted return (like Sharpe Ratio), with the risk

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metric being downside deviation

- *Calmar Ratio* - measure of risk-adjusted return (like Sharpe and Sortino Ratios) with the risk metric being the maximum drawdown
- *Information Ratio* - calculated as excess return over benchmark divided by standard deviation of excess return

### **V. Liquidity**

The guidelines set forth in Exhibit I permit the Endowment to be invested in assets that are illiquid in nature to enhance the overall portfolio's expected return and diversification. However, the portfolio will maintain sufficient liquidity, at all times, to meet the annual distribution needs of the endowment. The source of monies for such withdrawals will be based on rebalancing and cost considerations.

### **VI. Asset Allocation and Rebalancing**

The asset allocation ranges in the IPS have been designed to allow the OCIO sufficient scope for active portfolio management within clearly prescribed boundaries. The OCIO and Committee will ensure that the investment guidelines are sufficiently flexible to allow the OCIO to incorporate illiquid legacy assets in the WSUF Endowment portfolio and to manage portfolio transitions.

Within the parameters of the asset allocation ranges set forth in Exhibit I, the OCIO will manage the asset mix on a discretionary basis, determining the portion of the Endowment that will be allocated to each asset class, as well as the structure and strategy allocations within each asset class.

### **VII. Permissible Investments**

Permissible investments include without limitation, long and short positions in U.S. and non-U.S. equities (including preferred and common stock), private equities, hedge funds, private and public real estate, U.S. and non-U.S. fixed income investments (rated or unrated, and which may include convertible securities, bank loans, and other public or private debt instruments), futures, swaps, options, forward contracts, other derivative instruments, cash and cash-equivalent instruments, and such other investments that the OCIO deems appropriate in its reasonable discretion and consistent with its fiduciary duties to the Endowment. In addition, the Endowment may be invested in commingled investment vehicles including, without limitation, domestic or foreign investment funds; unregistered investment funds or investment funds registered under the U.S. Investment Company Act of 1940 or under the laws or regulations of any foreign

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jurisdiction; such investment vehicles may be organized as domestic or foreign companies, corporations, partnerships, limited liability companies, business trusts, bank collective trusts, other trusts, or other business entities.

Direct investment in companies with significant involvement in the tobacco industry is prohibited. However, indirect investment through commingled or pooled funds, where investment in such securities is incidental, is acceptable.

### **VIII. Risk Management**

The Endowment will be broadly diversified across and within asset classes to minimize the impact of unexpected asset class and investment specific adverse results and avoid excessive portfolio volatility. Meeting the long-term return objective of the Endowment requires the OCIO to regularly monitor and manage market risks associated with the overall portfolio, individual asset classes and specific investments.

### **IX. Distribution Policy**

The amount of Endowment assets available for distribution in any fiscal year will be determined in a manner consistent with the Wayne State University Board of Governor's statute regarding spending and distribution from the Endowment. All distributable funds not necessary to meet WSU's needs will remain invested in the Endowment.

### **X. Performance Monitoring and Evaluation**

The performance of the Endowment, component asset classes, sub-advisers, and investment vehicles will be monitored by the OCIO on an ongoing basis and reviewed by the Committee at least quarterly. All investment returns are to be measured net of investment management fees. The OCIO will provide monthly and quarterly summaries of returns versus stated benchmarks for short-term and long-term periods. The OCIO typically will meet with the Committee four times per year, and with the Board once per year, to provide a review of performance, a discussion of market conditions, and a summary of the current positioning of the Endowment.

### **XI. Tax Exempt Status**

The Board, Committee, and OCIO will seek to avoid making any investment that would be reasonably likely to jeopardize WSU's tax-exempt status.

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### Exhibit I: Asset Allocation Targets and Ranges

The WSUF Endowment's asset allocation policy targets and policy ranges are as follows:

Asset Class	Range MIN	Target	Range MAX	Benchmark
<b>EQUITY</b>	<b>40%</b>	<b>60%</b>	<b>70%</b>	<b>MSCI All-Country World Index (ACWI)</b>
Global Equity	20%	33%	60%	MSCI All-Country World Index (ACWI)
Private Capital*	0%	27%	40%	MSCI All-Country World Index (ACWI)
<b>FIXED INCOME</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>	<b>Weighted Fixed Income Composite<sup>1</sup></b>
Cash	0%	0%	5%	ICE BofA ML 3-Month U.S. T-Bill Index
Core Bonds	0%	13%	30%	Bloomberg Barclays U.S. Aggregate Bond Index
Credit	0%	2%	10%	ICE BofA ML High Yield Master II
Private Credit*	0%	5%	10%	ICE BofA ML High Yield Master II
<b>DIVERSIFYING</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>HFRI FOF Conservative</b>
Diversifying Strategies	0%	10%	20%	HFRI FOF Conservative
<b>REAL ASSETS</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>NCREIF ODCE (Lagged)</b>
Private Real Estate*	0%	8%	12%	NCREIF ODCE (Lagged)
Real Estate	0%	2%	12%	NCREIF ODCE (Lagged)
<b>Asset Class Total</b>		<b>100%</b>		

### ***\*Illiquid Investments***

**Definition:** Investments that do not provide the opportunity for redemption requests at least annually. Typically, Illiquid Investments are expected to have an investment period of multiple years, often exceeding 10 years.

**Objective:** As compensation for giving up liquidity, Illiquid Investments are expected to generate a return premium above their public market equivalents. These investments are intended to serve as a driver of long-term capital appreciation.

**Allocation Target and Ranges:** The target allocation to Illiquid Investments is 40 percent of the WSUF Endowment's market value. At least annually, the target allocation will be reevaluated by the OCIO and the Committee to ensure the appropriateness of the 40 percent target. This process includes, but is not limited to, (1) private commitment pacing and cash flow modeling, (2) liquidity analyses – evaluation of sources and uses of liquidity within the endowment, including spending draws to the University – and (3) stress tests to ensure the endowment projects to maintain sufficient liquidity during a crisis scenario.

The Committee recognizes that investing in illiquid investments (i.e., Private Equity, and Real Assets) makes it more challenging to quickly adjust those allocations. In addition, the pace of commitments to these investments must be prudently measured to construct an optimally diversified portfolio. As a consequence of these constraints,



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deviations from policy targets may occur. If the maximum threshold for any private asset class is exceeded, the OCIO will notify the Committee and offer guidance on the preferred approach to bring the allocation back within the allowable ranges.

**Policy Benchmark:** 60% MSCI All-Country World Index (ACWI)  
20% Weighted Fixed Income Composite<sup>1</sup>  
10% HFRI FOF Conservative  
10% NCREIF ODCE (lagged)

The Policy Benchmark is a diversified benchmark that reflects the broad underlying exposures of the Endowment.

**<sup>1</sup>Weighted Fixed Income Composite:** 65% Bloomberg Barclays U.S. Aggregate Bond Index  
35% ICE BofA ML High Yield Master II