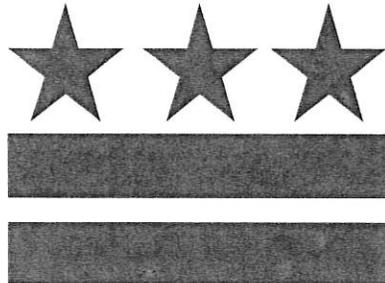




**UNIVERSITY OF THE DISTRICT OF COLUMBIA**  
4200 Connecticut Avenue, NW  
Building 39, Suite 200  
Washington, DC 20008



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
Office of the Chief Financial Officer  
Office of Finance and Treasury  
1101 4th Street, SW Suite 850 West  
Washington, DC 20024

**UNIVERSITY OF THE DISTRICT OF COLUMBIA ENDOWMENT POLICY**

## I. INTRODUCTION

The purpose of the University of the District of Columbia's Endowment Policy ("the Endowment Policy") is to provide direction for the investment, expenditure and management of the University of the District of Columbia's ("UDC") endowment funds, consistent with the best interest of UDC and the philosophy and practices of the Chief Financial Officer of the District of Columbia (the "CFO"). UDC's endowment funds include land grant funds appropriated by Congress under the First Morrill Act (P.L. 90-354); gifts, bequests, and other funds directed to be held to support UDC programs/activities; and funds assigned by the Board of Trustees (the "Board") to function as an endowment. UDC endowment funds are to be used to support the mission of UDC.

The CFO is responsible for managing all endowment investments and endowment related accounts of UDC, and establishing and maintaining the governing policies for all endowment investment activity related to the UDC. The CFO's authority to manage the investments of the endowment accounts was established by the Home Rule Act Section 424(d).

The Board of UDC, as the governing body of UDC is responsible for determining how the approved allocations from UDC's endowment funds should be spent. In carrying out this responsibility, the Board should, in conjunction with the financial staff and the Board's spending of the UDC's annual budget, submit to the CFO the proposed expenditures of UDC's endowment funds for the fiscal year, to include the amounts and programs to be funded. (*See Endowment Usage Section*)

## II. STATEMENT OF PURPOSE AND APPLICABILITY

- A. The purpose of the Endowment Policy is to clearly present the CFO's investment objectives and practices for UDC's endowment funds, and provide clear guidelines for investment activities.
- B. This Endowment Policy applies to all UDC endowment funds, which consist of the following:

**UDC Land Grant Fund:** Pursuant to the First Morrill Act of 1862, as amended (7 U.S.C. §§ 301-305, 307, 308), each eligible state received a total of 30,000 acres of federal land to be used toward establishing and funding educational institutions (land-grant colleges). Federal City College (FCC), one of the UDC's predecessor institutions, was considered a land-grant college, and in lieu of the donation of public lands for the endowment, FCC received \$7,241,706.

**Postsecondary Education Fund:** Contributions and gifts received by UDC and funds in receipt of services. This fund also includes the proceeds from the sale of UDC's radio station, WDCU. Other sources of funds donated to UDC for Endowment purposes will be consolidated into this Fund unless designated as restricted by the donor. The Postsecondary Education Fund is an unrestricted fund.

**Other Restricted and Unrestricted Investment Funds:** Any funds subsequently received that have been designated as restricted or unrestricted UDC endowment funds.

### III. AUTHORITY

This Endowment Policy was prepared pursuant to: The Home Rule Act, section 424(d).

### IV. DEFINITIONS

1. **Developed Markets:** a country (e.g., US, Japan) that is most developed in terms of its economy and capital markets. The country must be high income, but this also includes openness to foreign ownership, ease of capital movement, and efficiency of market institutions.

2. **Emerging Markets:** a country that has some characteristics of a developed market but is not yet a developed market. This includes countries that may be developed markets in the future or were in the past. It may be a nation with social or business activity in the process of rapid growth and industrialization. The economies of China (excluding Hong Kong and Macau, as both are developed) and India are considered to be the largest emerging market economies. Other examples of emerging market economies include Mexico, Indonesia, South Korea and Turkey.

3. **Endowment Funds:** Restricted and unrestricted contributions to UDC, including appropriations, grants, and donations.

a) Restricted UDC endowment funds are contributions given to UDC with restrictions as to the use of the funds, and may include prohibitions against use of principal.

b) Unrestricted UDC endowment funds may generally be used to support the mission of UDC without regard to specific use and without regard to preservation of principal.

4. **Investment Grade:** an investment is considered investment grade if the securities credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's. Generally, they are bonds that are judged by the rating agency as likely enough to meet payment obligations. Securities that are not rated as investment grade or do not have a rating are usually considered High Yield securities.

5. **Real growth:** real total return less annual spending and management fees.

6. **Real total return:** total return adjusted for inflation.

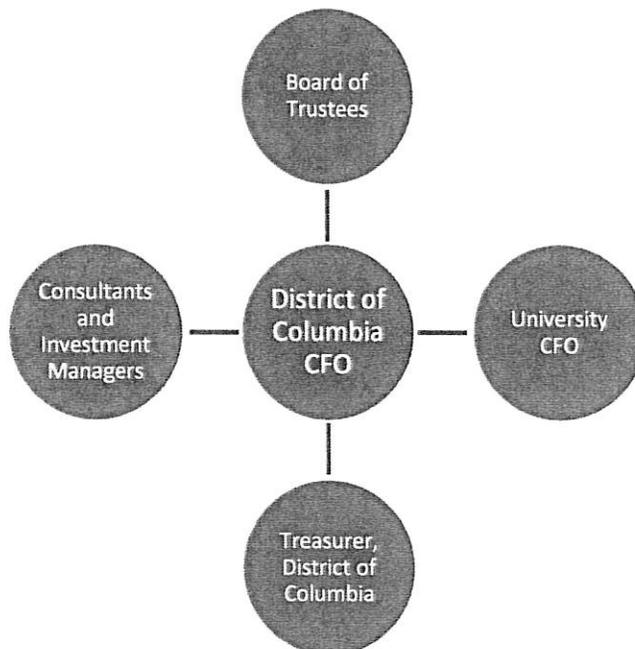
7. **Total return:** sum of capital appreciation (or loss) and current income achieved in the form of interest and dividends.

**V. FIDUCIARY AND MANAGERIAL RESPONSIBILITIES**

The CFO has delegated to the District of Columbia Treasurer (Treasurer) the CFO's authority to manage the investments and invested funds of UDC. The Treasurer will work closely with UDC's Chief Financial Officer in the day-to-day management of the investments of the endowment. In turn, UDC's Chief Financial Officer will work closely with and advise the Board and the President of UDC or the President's designee to the greatest extent possible.

Figure I

Endowment Fund Administrators, Advisors, and Decision-Makers



A. The CFO:

Approves the Endowment Policy for the investments of the endowment and retains and replaces investment managers. (Investment managers retained by the CFO shall be required to routinely (at least quarterly) submit performance/status reports to the Treasurer and UDC's Chief Financial Officer.

B. The Treasurer of the District of Columbia:

1. As the CFO's designee, formulates and manages UDC's endowment funds.
2. Transfers funds for investment purposes consistent with the Endowment Policy and directs fund transfers related to approved spending needs requested from UDC management.
3. Provides quarterly investment reports to the Board of Trustee's Audit, Budget and Finance Committee, and UDC's Chief Financial Officer or other relevant staff (These reports may be those generated by investment managers, summaries of such reports, and/or other reports prepared by staff in the Treasurer's office).

C. UDC's Chief Financial Officer (appointed by the CFO):

1. Advise the Treasurer regarding the spending of UDC's endowment funds.

2. Serves as the primary point of contact between the Board and the Treasurer.
3. Provides required information on spending patterns so investment managers can estimate the appropriate level of cash to hold for expenditures.

D. Investment Managers:

The CFO or CFO's designee has the authority to utilize the services of external investment management companies to assist in the investment and management of UDC's endowment funds. The number of investment managers and the amount of funds under each firm's management will be determined by the CFO or CFO's designee. The responsibilities of each investment manager and the investment services to be provided will be specified in a written agreement. Within those limitations, investment managers will be accorded discretion to select individual securities.

E. Consultants:

The CFO or CFO's designee has the authority to utilize the services of external consultants to assist in the investment and management of UDC's endowment funds. The responsibilities of each consultant and the consulting services to be provided will be specified in a written agreement.

## **VI. INVESTMENT PHILOSOPHY AND OBJECTIVES**

### Philosophy

- A. UDC's endowment funds will be invested and managed with the intention of obtaining the highest possible long-term total return (i.e., current income plus net realized and unrealized appreciation) with a prudent level of investment risk. Returns are expected not only to preserve, but enhance the real value (inflation-adjusted purchasing power) of UDC's endowment funds. Therefore, the investment objective is to achieve real growth of at least 6% over the long-term. The measure of inflation to be used in adjusting for real purchasing power should be the Higher Education Price Index (HEPI), a measure of college and university costs.
- B. Risk should be reduced with a broadly diversified portfolio of asset classes, which may include: equities, fixed income investments, real estate, alternative assets, mutual funds, unit investment trusts, pooled investments, partnerships and cash. Investment risks should be assessed through analysis of the entire portfolio.
- C. Investment portfolios are to be managed and evaluated using total return as the basis.
- D. The CFO or CFO's designee will consider incorporating Emerging Managers as part of the overall investment philosophy. Emerging Managers are typically defined as investment managers that are minority-owned, women-owned, and veteran-owned or is owned by a person with a disability and has between \$10 million and \$10 billion in

assets under management. Emerging Managers will be included in each search for new investment managers.

### Objectives

The specific investment objectives for the investment and endowment funds are as follows:

- A. Absolute Performance Objective. UDC's endowment funds are intended to support UDC and its mission and are to be held in perpetuity for that purpose. Accordingly, the primary investment objective is to preserve indefinitely the purchasing power of the endowment's assets and the annual support provided by those assets.
- B. Relative Performance Objective. The CFO or CFO's designee seeks competitive investment performance relative to appropriate securities indices (e.g., the S&P 500 Index). The selection of specific indices will be a function of the endowment's target asset allocation. The CFO or CFO's designee will determine the indices that will be used as benchmarks.
- C. Cash Investment Objective. The amount of free cash held in each portfolio is left to the discretion of each investment manager with consideration of the spending Policy outlined below. In order to seek maximum performance, the Endowment should try to be fully invested.

## **VII. ENDOWMENT USAGE**

The endowment is legally required to be segregated into two separate accounts; Post-Secondary and the Land-Grant Fund. Any spending will be split between the two accounts, however, specific limitations exist for the Land-Grant account as noted below. The Board of UDC may obligate and expend annually no more than four percent (4%) of the three (3) year moving average of the market value of the Post-Secondary account endowed funds as of September 30, (Fiscal year end). If UDC does not spend the 4% in the current year it would have the opportunity to spend the unallocated percentage of the prior year. For example, if the prior fiscal year request was 3%, then 1% could be carried over into the next fiscal year. However, the maximum carryover cannot exceed a total of 8%. The carry-over balance would only be available in the next fiscal year.

Land-Grant Fund based funds adhere to restrictions based on the Land Grant Policy. Restrictions: (i) The capital shall remain forever undiminished; (ii) No portion of the fund, including interest, may be applied to the purchase, construction, preservation, or repair of any building or buildings; (iii) all expenses of management and taxes related to the investment of the Land Grant funds shall be paid by the District or other non-Land Grant funds. The UDC Land Grant Fund shall not be co-invested with any other UDC endowment funds. The Board of UDC may obligate and expend annually no more than four percent (4%) of the three (3) year moving average of the market value of UDC's Land Grant Fund as of September 30, (Fiscal year end). If UDC does not spend the 4%

in the current year, it would have the opportunity to spend the unallocated percentage of the prior year as noted above for the Post-Secondary account.

As noted on Page 2, The Board of UDC, as the governing body of UDC is responsible for determining how the approved allocations from UDC's endowment funds should be spent. In carrying out this responsibility, the Board should, in conjunction with the financial staff and the Board's spending of UDC's annual budget, submit to the CFO the proposed expenditures of UDC's endowment funds for the fiscal year, to include the amounts and programs to be funded.

### VIII. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

Asset allocation is the most important component of the investment strategy development. It is a fundamental policy that the investment portfolios of UDC's endowment funds shall be diversified to reduce the risk of undue exposure to any one sector or security. The asset allocation is based upon the underlying investment strategy of the investment manager(s) and not the structure of the investment vehicle. As an example, an investment in a separate account managed via a limited partnership vehicle to manage an investment in real estate assets will be classified as an allocation to real estate. Accordingly, UDC's endowment funds must be allocated within the following parameters (*The minimum / maximum allocation targets can be adjusted by individual asset class with written approval by the CFO or CFO's designee*):

<u>Asset Class</u>	<u>Allocations</u>		
	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Cash + Short Bonds <i>(3 months or less)</i>	0%	8%	20%
Developed Government Bonds	0%	9%	20%
Investment Grade Bonds	0%	4%	20%
High Yield + Emerging Market Bonds	0%	8%	25%
Developed Market Equities	20%	38%	45%
Emerging Market Equities	5%	10%	15%

Commodities	0%	5%	10%
Real Estate	0%	4%	15%
Alternative Trading Strategies	0%	14%	30%

Exception outside of any minimum or maximum range, due potentially to market conditions or other considerations will be assessed by the CFO or CFO's designee and a written justification will be provided regarding the allocation. The CFO or CFO's designee will review the allocation policy presented above at least annually and revise the target asset allocation and the related ranges for UDC's endowment funds as deemed appropriate. The Target asset allocation is the starting allocation, not the ending position of the portfolio, but a base from which other allocations are determined. Investment managers are encouraged to use tactical asset allocations to underweight or overweight a given asset class to seek to capitalize on opportunities based on their analysis and outlook of the financial markets. Cash inflows/outflows will be deployed in a manner consistent with that tactical asset allocation.

The CFO or CFO's designee will instruct the investment advisor to review and propose a portfolio tactical rebalancing at least annually. In order to minimize transaction costs, new cash flows will be applied first toward meeting spending requirements and then toward rebalancing the portfolio.

The objective of the CFO or CFO's designee is to keep the portfolio fully invested. The selected investment manager(s) are hired to invest funds based on the asset allocation section outlined above.

## **IX. AUTHORIZED INVESTMENTS**

Authorized investments include individual equity and fixed income securities held individually or in separately managed accounts managed by an investment manager, plus collective investment vehicles including limited partnerships, mutual funds (open and closed end), exchange traded notes (ETNs) and exchange traded funds (ETFs). Investments may be made in developed market securities and emerging market country securities. The authorized investments outlined below are included in whole or in part of the investment strategy implemented by the investment manager.

**A. Equities.** Authorized equity investments include common stocks, preferred stocks, American Depository Receipts (ADRs) traded on a US or non-US exchange and Tradable Master Limited Partnerships. Equities are eligible to be purchased as an individual position, part of a fund or a separate account.

**B. Fixed Income.** Authorized fixed income investments include U.S. Government and Agency bonds and notes; U.S. corporate bonds and notes, including convertible bonds; municipal bonds and notes; mortgage-backed securities; loans; ABS; CMBS

and high yield bonds. Authorized fixed income investments also include international debt including emerging market and frontier market debt; international high yield bonds; convertible bonds, loans; ABS and CMBS. Fixed Income securities are eligible to be purchased as an individual position, part of a fund or a separate account. Authorized fixed income securities may also include securities that do not have a rating from a rating agency.

- C. Limited Partnership.** Is a form of partnership similar to a general partnership, except that in addition to one or more general partners (GPs), there are one or more limited partners (LPs). It is a partnership in which only one partner is required to be a general partner. Limited partners have limited liability. This means they have no management authority and are only liable on debts incurred by the firm to the extent of their registered investment. The GPs pay the LPs a return on their investment (similar to a dividend), the nature and extent of which is usually defined in the partnership agreement. General Partners thus carry more liability, and in cases of financial loss, the GPs will be the ones which are liable.
- D. Real Estate.** Authorized real estate investments are in the form of publicly traded Real Estate Investment Trusts (REITs) and Limited Partnership structures invested primarily in commercial real estate.
- E. Commodities.** Commodity investments can be made through a mutual fund, ETF, ETN or Limited Partnership structures. The investment will track one or more commodity indices, invest in commodity related companies or be managed by a commodity trading adviser actively trading a pool of commodity related assets on behalf of the investors.
- F. Alternative Assets.** Are non-traditional assets with potential economic value that would not be found in a standard equity or fixed income investment where the investment can include but not limited to private equity funds, buy-out funds, and hedge funds. The investment manager must provide evidence that they conduct an independent pricing of the value in the alternative fund on at least a quarterly basis.
- G. Mutual Funds, Exchange Traded Funds (ETF), Exchange Traded Notes (ETN), Index Funds, Unit Investment Trusts and Other Collective Investment Vehicles.** Authorized investments include shares in open-end or closed-end management investment trusts or investment companies registered under the Investment Company Act of 1940, as amended. Shares of unit investment trusts are also permitted.

An investment in an “Exchange Traded Fund” or “Market Index Fund” product indicates an investment to obtain exposure to a particular asset class, similar to a mutual fund, which will be comprised of a broad set of securities and does not represent a single investment in an individual security.

- H. Cash.** The following cash equivalents are authorized for purchase: registered money market funds; commercial paper rated A-1 and/or P-1; bankers acceptances from banks with long-term debt ratings of A or better; certificates of deposit with terms of one year or less, not to exceed \$100,000 per issuer unless collateralized at 102% of

market value; and U.S. government and agency securities with a maximum maturity of 12-months.

- I. The CFO or CFO's designee may provide authorization to invest with a manager with a track record of less than 3 years.

## **X. PROHIBITED TRANSACTIONS**

Investments or transactions not permitted by the Endowment Policy may result in investment manager termination.

## **XI. SECURITIES LENDING**

Securities lending will not be permitted under the Endowment Policy.

## **XII. INTERNAL CONTROL PROCEDURES**

Internal control is defined as "a process", effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in one of the following categories: (a) efficiency and effectiveness of operations; (b) reliability of financial reporting; (c) compliance with applicable laws and regulations.

The internal controls established for the investment and management of UDC's endowment funds, are described briefly below.

A. Duties and Responsibilities of the Investment Managers. Each investment manager retained will:

1. When investing endowment assets, utilize the care, skill, prudence, and diligence, under the circumstances then prevailing, that experienced professionals acting in a like capacity and fully familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
2. Acknowledge and agree in writing to its fiduciary responsibility to comply fully with the Endowment Policy and any subsequent modifications.
3. Recommend appropriate portfolio investment strategy, asset allocation, and investment vehicles.
4. Manage the investment of UDC's endowment funds under its care, custody, and/or control in accordance with the objectives and guidelines set forth in the Endowment policy and the written agreement between the investment manager and the CFO or CFO's designee.

5. Upon receipt of directives from the CFO or CFO's designee, immediately notify (via telephone, e-mail, or fax), the CFO or CFO's designee to confirm the validity of the transaction request.
6. The Investment Manager will inform the CFO or CFO's designee in writing regarding all significant and/or material matters and changes pertaining to the investment of all UDC's endowment funds within seven days of execution of the transaction, including, but not limited to:
  - Investment strategy
  - Portfolio structure
  - Ownership
  - Organizational structure
  - Financial condition
  - Professional staff
  - Legal and/or regulatory proceedings and actions
  - Recommended changes to the Endowment Policy
7. Promptly vote all proxies and related actions in a manner consistent with the long-term interests of UDC's endowment.
8. For assets under its care, provide UDC's Chief Financial Officer or relevant UDC staff and the CFO or CFO's designee with quarterly statements of activity and portfolio holdings, and quarterly investment performance reports showing investment returns on a total return basis. Returns for each asset class will be compared against its specific benchmark. The investment manager should be available to meet with UDC's Chief Financial Officer and the CFO or CFO's designee of the District of Columbia, upon request, make presentations and provide additional reports upon request.
9. Provide to the CFO or CFO's designee, within 30 days of the end of each quarter, a review of the performance of assets under management, including actions taken by the investment manager to achieve its performance objectives.

The investment manager(s) will be expected to include the following in their quarterly presentations:

- Review of performance of the portfolio. The performance review should include the latest quarter, six-months, year-to-date, 1 year, 3 years, 5 years, 10 years and "since inception." Relevant statistical benchmarks, as requested by the Treasurer, should be provided for comparison purposes.
- Explanation as to how and why performance differed from the relevant benchmarks.
- Disclosure regarding the level of market risk inherent in the portfolio and the means and methodology by which risk is monitored and controlled.

- Recommendations regarding modifications needed to further enhance the performance and efficiency of fund management.

B. Administrative Controls – Treasurer of the District of Columbia. The Treasurer:

1. Reviews all contracts, agreements, and other documents related to the investment of UDC's endowment funds.
2. Maintains an updated list of authorized signatories for all investment accounts.
3. On an annual basis, obtains (or designates staff to obtain) a SSAE 16 report from each investment manager to ensure that the investment managers have not experienced material control weaknesses which could impact UDC's invested endowment.

C. Administrative Controls – UDC CFO.

1. Verify that the uses of proceeds are in accordance with the spending restrictions outlined for the Land Grant Fund.
2. Reviews (or designates staff to periodically review) all journal entries and supporting documents to ensure the accuracy, completeness and validity of recorded investment transactions.

D. Brokerage Policy. All transactions effected for the investment portfolio will be "subject to best price and execution." The investment manager will keep detailed records of any brokerage fees from endowment assets used to effect soft dollar transactions and will provide those records to the CFO or CFO's designee.

E. Monitoring of Investment Managers. The CFO or CFO's designee will evaluate investment manager performance on a regular basis to assess progress toward the attainment of long-term performance objectives.

1. At least quarterly, the CFO or CFO's designee will meet to review: a) the investment manager(s)' adherence to the Endowment's investment policy; b) the overall return of the investment; c) any material changes in the investment manager(s)' organization, investment philosophy, or personnel; and d) the investment manager(s)' performance versus its benchmark(s).

F. Replacement for Underperformance. The CFO or CFO's designee will replace an investment manager if the manager:

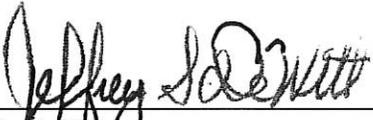
1. Consistently underperforms below the designated benchmark.

2. Repeatedly fails to provide reports on a timely basis or to respond to requests for information.
- G. Review for Reasons Other than Underperformance. The CFO or CFO's designee will replace an investment manager if the manager experiences or exhibits:
1. Significant turnover in professional staff.
  2. Significant loss of business.
  3. Significant new business.
  4. Style drift.
  5. A change in ownership.
  6. Significant legal action initiated by a client or regulatory agency.
- H. Replacement for Reasons Other than Underperformance. The CFO or CFO's designee at his/her discretion may replace an investment manager for any reason in the preceding section.

**XIII. AMENDMENTS AND EXCEPTIONS**

Amendments and exceptions to the Endowment Policy will be authorized only by the CFO.

THUS DONE AND SIGNED on this 4 day of October, 2017.

  
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Jeffrey S. DeWitt  
Chief Financial Officer  
Government of the District of Columbia