INVESTMENT POLICY

1.0 DEFINITIONS

1.1 “University” means Montana State University

1.2 “Alumni Foundation” means the Montana State University Alumni Foundation

1.3 “Governors” means the Montana State University Foundation Board of Governors

1.4 “Committee” means the Investment Committee of the MSU Alumni Foundation Board of Governors

1.5 “Campus Fund Manager” means the campus administrator responsible for management of Alumni Foundation accounting funds

1.6 “Long Term Pool” means assets invested for an indefinite period but no less than three years. Funds are deposited into this pool from donor directed gifts or by campus fund managers who wish to direct current (Short Term) funds to this pool to potentially earn better returns.

1.7 “Short Term Pool” means assets intended to be invested for no more than three years or invested as directed by the donor. These assets are the liquid capital utilized to fund ongoing cash needs of the Foundation and the University. Initially, all cash revenues are deposited into this pool. Donor directed gifts to the Long Term pool are transferred from the Short Term Pool to the Long Term Pool on a quarterly basis. The Short Term Pool balance will rise and fall depending on deposits and cash withdrawals, but is expected to generally increase as more cash is collected than is spent over time.

2.0 PURPOSE

The Investment Policy of the Alumni Foundation was established to facilitate a clear understanding of the Investment Policies, Guidelines and Objectives between the Governors and the Committee. It is the intent of this plan to be both sufficiently specific to be meaningful and flexible enough to be practical. This policy will be reviewed at least annually by the Committee with recommendations for any amendments presented to the Governors for final approval.

The Committee was established to carry out the Investment Policy of the Alumni Foundation, to provide guidance to the Alumni Foundation staff and to review investment performance on a regular basis.

The Governors expressly delegate to the Committee the selection of investment managers, asset allocation and other duties as required to effectively manage Alumni Foundation investments. It is expected that the Committee, in performing such duties and making such selections and allocations, will seek to achieve the spending objectives of the Foundation’s Fund Administration policy.
3.0 LONG TERM POOL INVESTMENT POLICY

3.1 Return Objective
The primary investment objective of the Alumni Foundation Long-Term Pool is to earn an average annual real total return of at least 4% per year over the long-term (defined as rolling ten-year periods), net of cost.

Attainment of this objective will enable the Alumni Foundation to maintain the purchasing power of the Long-Term Pool assets in perpetuity and meet its current spending policy. A secondary investment objective of the Long-Term Pool is to outperform over the long-term a blended custom benchmark based on the current asset allocation policy, which is shown below in the asset allocation section.

3.2 Time Horizon
The Alumni Foundation is designed to exist in perpetuity, and as such, managing the Long-Term Pool assets to meet the long-term Return Objective takes precedence over minimizing short-term volatility.

3.3 Risk
Prudent diversification is a critical tool for risk mitigation over the long-term. As such, the Committee will seek to meet the long-term Return Objective with a prudent level of risk, defined as standard deviation, that is consistent with the approved asset allocation policy, shown below. In addition to monitoring the standard deviation of the investment returns regularly, the Committee will also review additional risk metrics such as Value at Risk and scenario analyses of how the Long-Term Pool could potentially perform under different economic regimes (ex: high growth, low growth, inflation, deflation, etc.)

3.4 Asset Allocation
While the valuation of different asset classes and risk premia can and will change over time, empirical data demonstrates that the strategic asset allocation is the dominant driver of risk and return over the long-term. Therefore, the strategic asset allocation for the Long-Term Pool will be determined by the Committee to achieve the pool’s long-term return objectives within the established risk parameters measured on a prospective basis.

The table below reflects the current target asset allocation, and allows a flexible range of an absolute three (3) percentage points around each stated target. The target allocations will be reviewed by the Committee annually.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Allocation Range (+/- 3%)</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>15%</td>
<td>12% - 18%</td>
<td>Russell 3000</td>
</tr>
<tr>
<td>International Equity</td>
<td>15%</td>
<td>12% - 18%</td>
<td>MSCI ACWI ex-US</td>
</tr>
<tr>
<td>Directional Hedge Funds</td>
<td>13%</td>
<td>10% - 16%</td>
<td>HFRI Fund of Funds</td>
</tr>
<tr>
<td>Private Equity</td>
<td>15%</td>
<td>12% - 18%</td>
<td>Russell 3000 + 2%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>15%</td>
<td>12% - 18%</td>
<td>50% NCREIF ODCE, 45% MSCI AC World Energy, 5% Bloomberg Commodity</td>
</tr>
<tr>
<td>Absolute Return Hedge Funds</td>
<td>12%</td>
<td>9% - 15%</td>
<td>HFRI Fund of Funds</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>15%</td>
<td>12% - 18%</td>
<td>Barclays Aggregate</td>
</tr>
</tbody>
</table>
3.5 **Rebalancing**

The Committee is responsible for maintaining the asset allocation. The purpose of rebalancing is to maintain the risk/reward relationship implied by the stated long-term asset allocation targets. Actual allocations will be reviewed quarterly to determine if material deviations exist from the target allocation and if rebalancing is necessary. If rebalancing is deemed necessary, any necessary actions will be completed within 90 days, subject to any liquidity terms and guidelines of the investment manager(s). The underlying principle is to keep all asset classes as close to their target allocation as practical subject to liquidity, transaction costs, capital calls, distributions, and other considerations.

Investment manager accounts should also be rebalanced to support portfolio risk management, and align with the strategic target asset allocation. To balance proper investment manager diversification with prudent concentration, as a general guideline, investment managers should be allocated a minimum investment of 2% and a maximum investment of 10% of the Long-Term Pool, understanding that Private Equity investment managers make take several years to reach their respective target allocation. Investment manager sizing will be reviewed by the Committee on a quarterly basis. Similar to the rebalancing policy for asset allocation, if investment manager changes are deemed necessary, necessary actions will be completed within 90 days, subject to any liquidity terms and guidelines of the investment manager(s).

Generally, the cash balance in the long term pool will be kept at or near zero to minimize cash exposure and maximize potential returns. New cash flows (defined as new contributions and pledge payments) to the Alumni Foundation, shall be allocated to asset classes and managers by the Committee.

As a general rule, new cash will first be used to rebalance the pool in accordance with target asset allocations as listed above. At any time, if the cash balance is insufficient to cover a call made upon the long term pool assets, the Committee may cover said call with any other available cash including, but not limited to, unrestricted gifts and transfers from cash available in the short term pool with proper and sufficient documentation of the transfer.

3.6 **Expenditure of Funds**

The Alumni Foundation Board retains discretion to use the funds for any purpose connected to the University and not expressly prohibited by the donor. The Alumni Foundation Board also has broad discretion as to the amount of the expenditures. Under the Montana Uniform Prudent Management of Institutional Funds Act expenditure decisions should be guided by the following criteria:

- duration and preservation of the endowment fund;
- the purposes of the institution and the endowment fund;
- general economic conditions;
- effect of inflation or deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the institution; and,
- the investment policy of the institution.
3.7 **Investment Managers**

To meet the investment mandates prescribed in the target asset allocation, the Alumni Foundation does not invest directly in individual securities; rather, investments are made through diversified investment manager strategies, which can be in vehicles such as mutual funds, separate accounts, and collective trusts. The investment managers selected by the Committee may invest in stocks, exchange traded funds, bonds, derivatives, mutual funds, real estate, private equity, cash equivalents, and any other investments deemed appropriate by the Committee. The individual investments in the portfolio may reflect varying rates of risk and return which will serve to reduce overall portfolio risk while maximizing long term returns.

Investment managers shall be of institutional quality, and to be considered for the Long-Term pool, they will meet the guidelines as set forth below.

- A verifiable track record of sustained outperformance. Typically at least 5 years or through a full investment cycle, whichever is longer, but not necessarily with the current organization.
- A stable, robust organization with economic incentives that support team stability and interest alignment with investors. This typically precludes firms driven by one person.
- Documented processes and procedures with appropriate internal controls.
- Audited financial statements, preferably with a Tier 1 accounting firm.
- Material experience working in an institutional investment environment, and a significant institutional investor client base.
- Transparent and timely reporting. Typically either monthly or quarterly depending on asset class.
- An asset base that supports organizational stability, or line of sight to same. This typically precludes smaller and/or first time funds.
- A reputation for ethical and professional behavior.

3.7.1 **Minimum/maximum position sizes for each Manager (as % of Portfolio NAV)**

- 10% maximum on traditional core managers (e.g. large cap, fixed income)
- 5% maximum on all other managers
- 2% minimum on all managers

3.7.2 **Target manager positions (as % of Portfolio NAV)**

- 8% on traditional core managers (e.g. large cap, fixed income)
- 4% on traditional specialty managers (e.g. small cap)
- 4% on hedged equity and absolute return managers
- 3% on illiquid alternative managers (private equity, real estate, etc.)

3.8 **Performance Monitoring**

Long-Term Pool investment performance and investment manager performance will be reviewed by the Committee at least semi-annually. The Committee will make decisions with respect to the hiring and replacement of investment managers, however, the Committee Chair has the authority to act in the event of a decision needing to be made and time constraints prevent a meeting of the full Committee.
All guidelines and objectives shall be in force until modified in writing. If, at any time, a committee member believes that a specific guideline or restriction is adversely impeding the performance objective, he/she should present this fact to the Committee.

3.9 Environment, Social, and Governance (ESG) Factors
The potential integration of certain ESG factors into the investment policy for the Alumni Foundation will be part of the regular cadence for reviewing the investment policy in its entirety. The Committee will weigh the benefits of any active management decision in their portfolios, including restrictions on investment in specific industries or individual companies, against the projected costs of such decisions, which can include incremental transaction costs, additional operational, administrative and monitoring complexity, and potential opportunity cost. Currently, the Alumni Foundation does not invest in individual securities, but rather invests with a roster of investment managers to provide the Alumni Foundation prudent diversification across thousands of individual securities.

Because the Long-Term Pool has such broad diversification of individual securities through investment managers, potential divestment from individual securities, based upon certain ESG factors of those underlying companies, would only cause a de minimis effect on the total portfolio risk and return profile. However, each investment manager has discretion in security selection, including the extent to which the manager chooses to incorporate ESG factors in its investment process and security selection. As changes to the roster of investment managers are made, the Committee can review potential replacements that provide more experience and capabilities in managing ESG factors within their respective investment strategy.

3.10 Treatment of Distributed Securities
It is common to receive marketable securities as gifts from donors and occasionally from asset managers upon liquidation of all or a part of assets managed. All marketable securities will be sold upon receipt by the Alumni Foundation or its representatives. In no event may an employee, Governor, volunteer, or representative of the Alumni Foundation commit to the long term or perpetual retention of marketable securities. In the event of a request to hold a marketable security, no assurance can be given without the consent of the Committee.

Should the committee consent to the holding of marketable securities it is their sole responsibility and authority to make decisions on the timing of liquidating said securities.

4.0 SHORT TERM POOL POLICY

The assets in the Short Term Pool exist to meet the expected operating cash requirements of the Alumni Foundation and the University including cash needs designated for the construction of buildings. Accordingly, the Investment Objectives and philosophy of the Short Term Pool is to:

- Preserve the capital of the Pool.
- Provide necessary liquidity to meet the Foundation’s and University’s operating and building requirements.
- Earn a return on the investments held in the Pool subject to the capital preservation and liquidity objectives listed above.
4.1 **Guidelines**

A. Investment Managers for the Short Term Pool will be selected and monitored in the same fashion as those utilized for the Long Term Pool.

B. It is the intention of the Committee to give investment managers full investment discretion within the scope of this statement and, should they exist, the respective mutually agreed upon investment guidelines.

C. The investment benchmark for the Short Term Pool is the Merrill Lynch 1-3 Year Government/Corporate Index.

The Short Term Pool may invest in fixed income securities generally having an average maturity of three years or less. The weighted average credit quality of holdings will be at least AA or the equivalent and will never be below A as rated by either Standard & Poor’s or Moody’s Investors Service. Holdings shall not include any security with a credit quality rating of less than A-/A1.

D. Short Term Amounts Invested in Long Term Pool - to maximize invested returns and to promote diversification, it may be the desire of the Committee to invest a portion of the Short Term Pool in the Long Term Pool from time to time.

1. A Quasi-Endowed fund will be created to manage the Short Term Pool investment in the Long Term Pool where the corpus usage for annual payout will be set to 0%.

2. No more than 25% of the Short Term Pool balance may be invested in the Long Term Pool at the time the investment is made.

3. The Short Term Pool fund will abide by the same rules and policies that govern other participating Long Term Pool funds.
5.0 END OF POLICY SUPPLEMENTAL INFORMATION

5.1 Equities
The purpose of the equity segment of the portfolio is to provide principal appreciation that exceeds inflation. It is recognized that equity investments carry greater price variability and risk than other asset classes, which could result in certain investments reflecting a market value below acquisition cost from time to time. Equity investments may be both liquid (mutual funds with daily liquidity) and illiquid (private equity).

Specific portfolio management decisions (including security selection, size, quality, number of industries or holdings, emphasis on income levels, portfolio turnover, and the use of options or financial futures) are left to manager discretion subject to standards of fiduciary prudence.

5.2 Fixed Income
The purpose of the fixed income segment is to provide a hedge against deflation, to provide a stable component of return and to mitigate the overall volatility of the portfolio. In general, the fixed income portfolio shall be well-diversified with respect to type, industry, and issuer in order to minimize risk exposure. Additionally, from time to time, the Committee may consider the merits of shortening the overall duration of the portfolio or considering a tactical allocation to high yield.

5.3 Alternative Investments
The purpose of the alternative segment of the portfolio is to provide diversification from the capital market investments primarily on the equity side of the portfolio. Directional hedge fund strategies, absolute return hedge fund strategies, real assets, and private equity generally have low correlations to equities as well as fixed income and provide the ability to generate positive returns when the other components of the portfolio are not experiencing positive results.

5.3.1 Directional Hedge Funds
These hedge fund strategies are more designed for long-term growth than for risk mitigation. These managers include equity hedged strategies that investment in both long and short in equity investments, as well as event-driven strategies.

5.3.2 Absolute Return Hedge Funds
These hedge funds are designed to be risk mitigators in the portfolio, with low correlation to both equity and interest rate risk. Examples include equity market neutral, global macro, relative value, and multi-strategy hedge funds.

5.3.3 Real Assets
These managers invest in securities that provide inflation protection such as natural resource equities, commodities, and real estate.

5.3.4 Private Equity
The investment vehicle used to invest in private equity is a partnership with a 10-15 year life. The partnership draws down capital as investment opportunities present themselves and return capital as investments are sold. The evaluation of returns in the short term will be very difficult and essentially meaningless due to the “J Curve”. The success of the partnership will be measured once assets begin to be returned to investors, typically around year 5 of the investment's life.