

# The Francis W. De Serio Chair of Strategic and Theater Intelligence Investment Policy

## I. INTRODUCTION

1. The purpose of this Investment Policy document is to establish investment policy and assist in the effective supervision, monitoring and evaluation of the funds of The Army War College Foundation, Inc., specifically the account used to support the Francis W. De Serio Chair of Strategic and Theater Intelligence by the Board of Trustees (Board) and the Investment Committee (Committee).

A. The Francis W. De Serio Chair of Strategic and Theater Intelligence is an academic chair at the US Army War College, Carlisle Barracks, PA funded by the generous donation of funds by the De Serio family. As such, the sole purpose of this account is to make available sufficient monies to attract and compensate the person who will occupy this academic chair. This academic chair commenced with the US Army War College's Class of 2009.

B. This document's sole purpose is to provide specific investment guidance to the RIA Registered Investment Advisor (RIA) who will be selected to manage this account. All management procedures, required reports and communications protocols outlined in "The Army War College Foundation Inc. Investment Policy" document dated September 11, 2015 [DK1] will remain in effect and pertain to this account.

## II. INVESTMENT OBJECTIVES

The investment objectives of the Board for the Fund are:

### 1. GENERAL

The general objectives for the Fund are to invest the assets in this account so as to generate sufficient annual total return (income and earnings) to pay the salary and any associated expenses for the individual who occupies the Francis W. De Serio Chair of Strategic and Theater Intelligence.

### 2. LONG-TERM HORIZON

A. The Board of Trustees and the Investment Committee expect that this academic chair will be a permanent position on the US Army War College faculty, and as such, the requirement to fund this position will be a continuing requirement into the future with no end date stated.

B. The primary objective of this account is to generate income for a total return (income and earnings) sufficient to pay the expenses associated with this academic chair. As such, the RIA should allocate assets accordingly. ~~It is also expected that the expenses associated with this academic chair will grow at the~~

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~~rate of inflation, assume 3 percent per year.~~ The Board has approved the maximum allowable withdraw of 7% of the rolling three-year average market value of the assets held in the account, calculated on July 31 each year. [DK2] The suggested asset mix guidelines below should serve as a starting point in developing an appropriate asset allocation.

### 3. PERFORMANCE EXPECTATIONS AND STANDARDS

The Board seeks a long-term rate of return on Fund assets that is at least equal to 1, 3, and 5 year returns of a primary Balanced Index benchmark composed of 49% Russell 3000 Index, 11% MSCI ACWI ex U.S. Index, and 40% Barclays U.S. Aggregate Bond Index.

In addition to the Primary Balanced Index, the Fund will be evaluated relative to a Diversified Balanced Index composed of indices in the same proportion as the asset allocation of the portfolio. The indices utilized may include, but are not limited to the following:

U.S. Large-Cap Stocks.....	S&P 500 Index
U.S. Mid-Cap Stocks.....	Russell Mid-Cap Index
U.S. Small-Cap Stocks.....	Russell 2000 Index
International (Non-U.S.) Stocks.....	MSCI ACWI ex U.S. Index
International Developed Markets.....	MSCI EAFE Index
International Emerging Markets.....	MSCI Emerging Markets Index
Real Estate (REITs).....	Wilshire U.S. REIT Index
Core Bonds.....	<u>Bloomberg</u> Barclays U.S. Aggregate Bond <u>Index</u>
Short-Term Bonds.....	<u>Bloomberg</u> Barclays U.S. Government 1-3 <u>Year</u>

Notwithstanding the above, if changes to the portfolio structure so require, suitable benchmarks may be negotiated with ~~investment manager~~the RIA and Investment Manager(s) by the ~~committee~~Committee.

In addition to the Primary and Diversified Balanced Indices, the Fund will be evaluated relative to a peer group consisting of organizations with similar investment goals and objectives as the Foundation. The Board seeks to rank in the top third of this peer group over rolling three or five-year periods.

### 4. ASSET MIX

A. The Fund's asset mix is the respective percentage of distribution of total portfolio assets invested among the three categories (equities, fixed income, and cash equivalents). No more than 20% of the equity portfolio may be invested outside the U.S., and up to 10% of the equity portfolio may be invested

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in “emerging markets.” Any given asset class which is not fixed income or cash shall be deemed an element of the equity allocation.

B. The Board establishes the following asset mix strategy to improve the probability of achieving enhanced real (inflation protected) rates of return. The ranges give the ~~Registered Investment Advisor~~ RIA and selected Investment Manager(s) the flexibility to react to significant events that might influence the market and will allow them to position the portfolio in a more aggressive or defensive posture depending on the situation. In no case do the RIA and selected Investment Manager(s) have the authority to position the portfolio outside the range shown below:

Asset Class	Target %:	Allowable Range %:
Equities	60	40- <del>70</del> <u>75</u>
Fixed Income	40	<del>30</del> <u>25</u> -60
Cash Equivalents	0	0-10

### C. Allowable Investments<sub>[DK3]</sub>

~~(1) The Committee authorizes the RIA to invest the Fund in a wide-range of investments to include direct purchase of individual stocks and bonds, mutual funds and Exchange Traded Funds (ETF). There are no absolute qualitative guidelines; however investments selected must have sufficient research available to make prudent trading decisions and acceptable trading volume to provide marketability of such securities.~~

### ~~D. Restrictions~~

~~(5)(1) The Fund will not invest in any asset class or strategy without the consent and approval of the Foundation Board; nor Investment Committee. The Investment Committee will the Fund invest in stocks of companies the ownership of which would be embarrassing to the Foundation promptly notify the Board of any such changes at or before the War College; next Board meeting.~~

~~nor will the Fund invest in stocks of companies the ownership of which would be embarrassing to the Foundation or the War College.~~

~~(6) Notwithstanding the above, the manager may invest in publicly traded securities which are priced daily whose underlying assets are physical precious metals or energy related~~

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~~substances, most particularly hydrocarbons. The maximum exposure to this asset class shall be the lesser of 8% of the entire portfolio, or 10% of the equity portfolio~~

~~(3)~~

(2) The RIA will ensure the overall portfolio is diversified to reduce the possibility of a significant impact to the Fund in the event of a substantial loss in any specific industry or security.

(3) As a general guideline for investments in individual securities, no more than 5% of the Fund's equity portion should be invested in any one ~~individual~~ security. All corporate bonds included in the portfolio must be "investment grade", (Moody's or Standards and Poor's "Baa / BBB") or equivalent rating from other rating agencies. In the event an individual issue falls below investment grade, it is expected the individual Investment Manager(s) will replace that issue in their respective portfolio(s). Mortgage backed securities are limited to: Government National Mortgage Association (GNMA), Federal Home Loan Mortgage and Federal National Mortgage Association (FNMA) issues. Mortgage derivatives are defined as those mortgage-backed securities of the three federal agencies mentioned above. Asset-backed securities must be rated "A" or better. Qualified for inclusion in the portfolio are unrated securities of the US Treasury and US Government Agencies. In no event should debt securities of any one issuer (US Government or its agencies issues excluded) exceed 10% (at cost) of the Fund assets under management.

(4) Assets held in commingled mutual funds or fund of funds, cannot be entirely bound by these guidelines; however, the funds will be evaluated and selected within the context of the objectives of the Foundation and will generally be aligned with the spirit of this document.

(5) The Board and Investment Committee are sensitive to the sustainability and societal impact of an investment in a company or business. Environmental, social, and governance (ESG) considerations are factors to help assess risk and return but should not be solely used as exclusionary screens to eliminate specific companies or sectors from consideration. It is expected that the RIA will not invest in stocks of companies the ownership of which would be embarrassing to the Foundation or War College.

### III. MANAGEMENT PROCEDURES

1. At the beginning of the Foundation's fiscal year, the Chief Executive Officer (CEO) will inform the RIA of the monetary requirement for the support of the Francis W. De Serio Chair of Strategic and Theater Intelligence for the upcoming year. At that time, the RIA, the CEO, and the ~~CEO~~ Chair of the Investment

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Committee will determine an appropriate strategy for raising the funds required  
and agree to a timetable to disburse the funds required.

2. The RIA will assist the CEO to execute account operations to ensure the required funds are available and transmitted to the Foundation.

3. The CEO will receive the funds and disburse as appropriate to the individual who occupies the Francis W. De Serio Chair of Strategic and Theater Intelligence.

Carlisle Barracks, Pennsylvania

September 11, 2015