

# The Army War College Foundation Inc. 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., including the Investment Fund (the Fund) by its Board of Trustees (Board) and the Investment Committee (Committee).
2. The President of the Foundation will appoint at least three board members to the Investment Committee. The board attorney will provide advice on legal matters.
3. This Investment Policy is designed to:
  - A. State in a written document the Board's attitudes, expectations, objectives and guidelines in the investment of the Fund.
  - B. Set forth an investment structure for the managing and investing the assets of the Fund.
  - C. Provide guidelines for each investment category in the Fund so that the Fund will be managed according to stated objectives.
  - D. Encourage effective communications between the Board, the Committee, the Chief Executive Officer (CEO), the Registered Investment Advisor (RIA) and the selected Investment Manager(s).
  - E. Establish a framework to measure the ongoing performance of the Fund.

## 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 the Fund consistent with any legally applicable donor or statutory restrictions, to protect the Fund from any undue erosion of purchasing power; and, whenever possible, prudently invest the Fund to enhance its value. Internal growth of the Fund is a critical element in achieving objectives. The Fund consists of Foundation monetary assets that exceed the requirements of the Foundation's operating requirements.

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### 2. LONG-TERM HORIZON

A. The Committee will base its investment guidelines on an investment horizon greater than ten years. Interim fluctuations occur within that appropriate perspective. Similarly, the Committee will develop the strategic asset allocation based on this long-term perspective. The Committee may maintain a limited short-term liquidity posture in the Fund if situations warrant such a posture.

B. Long-term growth is the primary objective and investments therefore should be directed toward overall appreciation by maximizing the total investment return over this extended time horizon with prudent risk. Accordingly, the ~~Registered Investment Advisor~~ RIA and selected Investment Manager(s) should position the Fund's portfolio with a long-term risk/return orientation, taking advantage of the higher expected returns associated with a long-term portfolio.

### 3. RISK TOLERANCE

A. The Board recognizes the difficulty of achieving the Fund's investment objectives in light of the uncertainties and complexities of contemporary investment markets. They also accept some risk to achieve the long-term investment objectives. While preservation of capital is an important element in the protection of the Fund's assets, the Board recognizes it is not possible to avoid short-term declines in market value of the Fund's assets.

B. In establishing the risk tolerance of this Investment Policy Statement, the Committee will consider the following factors:

(1) The Army War College Foundation is essentially debt-free and expects to remain so, this enabling it to adopt a long-term growth strategy for the Fund's assets.

(2) The amount of annual giving and income is increasingly predictable, and gives the Foundation the ability to set aside additional finances in support of the Fund.

(3) The Army War College Foundation maintains an Operating Fund that allows administrative, program development and program support operations that are funded by annual giving and income from short-term assets.

(4) The liquidity inherent in the Fund is deemed to be a sufficient long-term strategic reserve against any unknown threat to the viability of the Foundation's Operating Fund.

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## 4. 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 57% Russell 3000 Index, 13% MSCI ACWI ex U.S. Index, and 30% 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 the investment manager 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.

## 5. 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 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

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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	70	50-90
Fixed Income	30	10-50
Cash Equivalents	0	0-10

### C. Allowable Investments

(1) The Fund will not invest in any asset class or strategy without the consent and approval of the ~~Foundation Board; nor will the Fund invest in stocks of companies the ownership of which would be embarrassing to the Foundation or the War College.~~<sup>[DK1]</sup> Investment Committee. The Investment Committee will promptly notify the Board of any such changes at or before the next Board meeting.

(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.

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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. THE BOARD OF TRUSTEES

A. The Board of Trustees has ultimate responsibility for the establishment, implementation and modification of the written investment policy of the Fund as stated in this document.

B. The Board, upon the recommendation of the Investment Committee, selects the ~~Registered Investment Advisor~~RIA.

C. The Board, in consultation with the Investment Committee, reviews the performance of the investment accounts semi-annually, and annually, takes action to continue or cancel the ~~Registered Investment Advisor's~~RIA's contract.

#### 2. THE INVESTMENT COMMITTEE

A. The Investment Committee prepares and submits for Board consideration and approval the Investment Policy of the Endowment Fund (this document).

B. The Investment Committee reviews possible ~~Registered Investment Advisors~~RIAs taking into account the fee structure, accessibility, ~~money manager selling agreements~~ and other factors it deems relevant.

C. After completing this review, the Investment Committee recommends a ~~Registered Investment Advisor~~RIA to the Board for approval or disapproval.

D. The Investment Committee monitors the performance of the investment accounts and the RIA by reviewing quarterly, ~~semi-annual and annual~~ statements submitted by the RIA.

E. The Investment Committee reports account and RIA performance to the Board semi-annually.

F. The Investment Committee has sole authority to direct the actions of the RIA in respect to Fund investment policies. Consistent with this Policy Statement, the Committee grants full discretion to the ~~Registered Investment Advisor~~Manager(s) regarding the selection of securities and the timing of all transactions.

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G. The Investment Committee grants full discretion to the Investment Manager(s) to respond to all proxy voting and tender offers on behalf of the Board of Trustees and the Army War College Foundation with respect to individual securities held in the Fund. With respect to mutual fund proxies, the Investment Committee specifies that all proxies will be voted by a proxy service in a manner that will be in alignment with the best interest of the Foundation and the War College. In making the decision on how to vote, and whether to tender shares, it is expected the Investment Manager(s) and proxy service will adhere to the Prudent Investor Rule and exercise his Fiduciary responsibility accordingly.

### 3. THE CHIEF EXECUTIVE OFFICER

A. After the Board of Trustees has selected ~~a Registered Investment Advisor~~an RIA, The CEO signs and establishes the ~~Registered Investment Advisor~~RIA agreement between the Army War College Foundation and the ~~Registered Investment Advisor~~RIA.

B. Serves as the recipient of all correspondence from the ~~Registered Investment Advisor~~RIA and establishes administrative procedures to ensure that all such correspondence is directed to the Investment Committee in a timely manner.

C. The fact that the CEO signed the ~~Registered Investment Advisor~~RIA agreement on behalf of the Board, in no way either expressly or implied, gives the CEO directive authority over the ~~Registered Investment Advisor~~RIA or the Managed Accounts. Likewise, the CEO has no fiduciary or implied responsibility for the performance of the investment accounts.

### 4. THE REGISTERED INVESTMENT ADVISOR (RIA)

A. Acts as a Fiduciary for the Fund in compliance with the legally accepted definition of the Prudent ~~Man~~Investor Rule and the Fiduciary Code of Pennsylvania. The RIA will agree and acknowledge, in writing, to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein and as may from time to time be modified by the Board.

B. After completing due-diligence investigations, the RIA selects Investment Manager(s) ~~with whom the RIA has an established selling agreement~~ to execute the day-to-day operation of the Fund.

C. Monitors the performance of the Fund and the performance of the Money Manager(s). ~~The RIA has the discretion to retain or terminate the selling agreement with the chosen Investment Manager(s); however the RIA will immediately advise, in writing, the CEO when such changes occur.~~

D. Reports quarterly, semi-annually, and annually to the CEO/Investment Committee on the performance of the Fund and the Investment Manager(s).

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These reports must include, but not limited to, investment performance for the period covered, an update on overall fund performance from when the RIA agreement was put into effect, a graphic and accompanying table showing the entire Fund portfolio's asset allocation, any change to the selected Investment Manager(s) and reasons for such changes, as well as other relevant matters. It is not expected that the RIA make predictions on the economy or the overall investment climate. It is expected that the RIA explain any deviations from the target percentages as outlined in II-3-(5) above.

~~E. Respond to all proxy voting and tender offers on behalf of the Board of Trustees and the Army War College Foundation. In making the decision on how to vote, and whether to tender shares, it is expected the RIA will adhere to the Prudent Man Rule and exercise his Fiduciary responsibility accordingly.~~ [DK2]

### IV. REVIEW, REPORTS AND COMMUNICATIONS

#### 1. REVIEW OF INVESTMENTS

The Investment Committee Chairman will monitor all financial reports received from the RIA and respond to informational needs by the Board of Trustees, the Committee or the RIA.

#### 2. QUARTERLY REVIEW

On a timely basis, but not less than quarterly each year, the Committee will conduct a teleconference to focus on:

- A. The status of the Fund
- B. The RIA's adherence to the Investment Policy Guidelines and the requirements contained herein.
- C. Comparison of the Fund's overall results to the custom benchmarks and performance standards
- D. Recommend changes in the investment policy to the Board

#### 3. SEMI-ANNUAL AND ANNUAL REVIEWS

Besides the information covered during the quarterly reviews, the Investment Committee Chairman will report to the Board of Trustees at the semi-annual board meetings the following:

- A. The Fund's performance with particular attention to evaluating the RIA's adherence to this investment policy document.

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B. Any recommended modifications to this policy document and any other matters the Investment Committee thinks should be presented to the Board.

Carlisle Barracks, Pennsylvania

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