



Board of Trustees
Investment Subcommittee

3:30 p.m.
November 22, 2021

Virtual Meeting via Zoom

A live stream of the meeting for public viewing will also take place on YouTube at the following link: <https://www.westfield.ma.edu/live>

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|--|--------------------|
| 1. Called to Order | Chair Queenin |
| 2. Minutes | |
| a. May 17, 2021 | Chair Queenin |
| 3. President's Report | President Thompson |
| 4. Items for Discussion | |
| a. Distribution of Investment Earnings | Eaton Vance |
| b. Quarterly Investment Results | Eaton Vance |
| 5. Items for Action | |
| a. Motion – Investment Policy (0430) | Eaton Vance |

Attachment(s):

- a. Minutes 5-17-21 (Draft)
- b. Distribution of Investment Earnings (Memo)
- c. Distribution of Investment Earnings (2019 NACUBO-TIAA Study)
- d. Quarterly Investment Results
- e. Motion – Investment Policy
- f. Policy – Investment (Track Changes)
- g. Policy – Investment (No Track Changes)



BOARD OF TRUSTEES

Investment Subcommittee

May 17, 2021

Minutes

Meeting held virtually via Zoom

In accordance with Massachusetts Gov. Charlie Baker’s Executive Order Suspending Certain Provisions of the Open Meeting Law, G.L. c. 30A, § 20 dated March 12, 2020.

A live stream of the meeting for public viewing also took place on YouTube.

MEMBERS PARTICIPATING REMOTELY: Committee Chair Kevin Queenin and Trustees Paul Boudreau, Madeline Landrau, and Ali Salehi

Also participating remotely were Dr. Roy H. Saigo, Interim President of Westfield State University, Mr. John Davies, Foundation Board member, Mr. Stephen Taksar, Vice President for Administration and Finance, Ms. Lisa Freeman, Associate Vice President for Administration and Finance, and Messrs. Robert Quinn and Duke Laflamme from Eaton Vance WaterOak Advisors (Eaton Vance).

The meeting was called to order by Committee Chair Queenin at 3:01 PM and all the committee members (with the exception of Trustee Landrau at this time) and guests participating remotely were announced as listed above.

MOTION made by Trustee Boudreau, seconded by Trustee Salehi, to approve the minutes of the November 2, 2020, Investment Subcommittee meeting.

ROLL CALL VOTE taken:

Trustee Boudreau	Yes	Trustee Salehi	Yes
Trustee Landrau	Not yet in meeting	Trustee Queenin	Yes

Motion passed unanimously.

Quarterly Investment Results. Eaton Vance representatives presented the first quarter investment summary. (Trustee Landrau joined the meeting at 3:03 PM.) The portfolio increased from \$20 million to \$23.6 million through March 31, 2021. The annualized return since inception has been 12.7%. The current asset allocation is 65% equities and 35% bonds and cash. They recommend raising the range of equities from 45% to 65% to 45% to 70% and lowering the fixed income range from a low end of 35% to 30%. A large amount of liquidity has been put into the system to spark inflation and the numbers are beginning to show that.

- Eaton Vance believes we are still in a bull market. Earnings are currently strong due to recessionary cost cutting last year and businesses returning to work. In the near term, earnings should continue to help stock prices go higher if interest rates stay low.

- The shortage of workers has been seen across the restaurant industry and 16 states have started to curb unemployment benefits in hopes of getting more people to work. More people are also retiring earlier.
- Many corporations are reporting strong earnings after cutting production, staff, and operating expenses but increasing prices. Profits were up 90% in the first quarter and very strong earnings are expected in the second quarter.
- It was questioned whether there are state guidelines for investing higher education that need to be complied with. Eaton Vance stated that they work with 11 entities within the state college system and the range of 45% to 65% in equities complies with all guidelines. Many other institutions have 70% to 75% as the high end for equities. Inflationary pressures will continue to downgrade the economy over a long period of time. On average, the market declined 14%.
- The growth of the portfolio grew \$5.1 million over the last year. Although painful to see the market value fluctuate, there are some years, like the last 12 months, having a 28% return.
- The bond portfolio does not expect considerable income but will provide a cushion in a downturn of the equity market. The bond maturity schedule is very short, with 15% maturing in the next year, 45% in the next two years, and 40% in the next three years, giving the ability to reinvest in rising rates. It is a high-quality portfolio that provides a perfect defensive position going forward. The benchmark it is being managed against is 65%.
- Vice President Taksar stated that based on the analysis, he is comfortable with the range of what is being presented.
- The portfolio is overweight in equities and underweight in bonds. Over the long term, equity will outperform bonds and cash. The non-U.S. allocation is being increased slightly, slowly, and incrementally.
- Since October 30, 2020 when the portfolio was fully invested, the benchmark was up 11.5% and the University was up 12.3% net of all fees, 80 basis points ahead of the benchmark.

Distribution of Investment Earnings. Mr. Taksar stated the University has not yet drawn down any interest income from the investment portfolio. The goal is to preserve the purchasing power and to keep these funds growing as a resource for the University. Income from these investments has not yet been added to the budget. Previously, \$300,000 per year in interest income was added as a line item to the general fund when certificates of deposit (CD) rates were positive. The interest income in the current budget needs to be reduced or funds need to be allocated from investment income. A prudent policy needs to be developed to preserve funds and still draw down an amount of interest income.

Eaton Vance reviewed the investment history and created projections, suggesting that a 4% withdrawal rate would allow the portfolio to grow and maintain itself over the long term. An analysis was given showing how the portfolio would grow in the next ten years with a growth of 5.4% and planned distributions of 4%. It was questioned whether there was any thought of taking 95% of earnings for a specific period and cordon it off from highs and lows to preserve the principal. It was stated that there will be large swings in any year. Eaton Vance ran thousands of Monte Carlo simulations with highs and lows. The probability of success is 100% over a ten-year process. The extremes go down to \$16 million but increase to \$62 million. If the extreme periods are cut off, the range is much tighter. It was questioned why we would not look at distributions annually instead of trying to create a formula for future years by committing to a certain percentage every single year. Mr. Taksar stated that could be done. He thinks of these funds like an endowment, keeping them preserved for the University and not invading the principal. The draw should be treated the same way. Schools manage their endowments and use a multi-quarter year averaging technique to minimize the risk. When we move to multi-year planning, it allows for predictability and stability.

It was stated that it is difficult to take distributions in a year we have lost money. As the new policy is created, that concern could be incorporated. The funds in the University's bank accounts are generating approximately \$300,000 and the portfolio year-to-date has generated \$360,000, making income close to \$700,000. All of this

could change if enrollment goes up. Today’s discussion will inform the approach to create models and get information from other schools on how they draw their investments.

Investment Policy. Based on recommendations discussed today, the Investment Policy needs to be amended.

MOTION made by Trustee Queenin, seconded by Trustee Landrau, to approve the changes and accept the newly revised Investment Policy (0430), as presented.

Discussion: Mr. Taksar stated the Investment Policy is required to be reviewed annually. Eaton Vance is recommending an increase in equity and more flexibility in fixed income allocation and shifts in the benchmarks discussed at the last meeting to bring the policy up to date. Eaton Vance representatives added that the equities would not be increased immediately, but they would have the flexibility to do that based on the higher inflation environment if it comes.

ROLL CALL VOTE taken:

Trustee Boudreau	Yes	Trustee Salehi	Yes
Trustee Landrau	Yes	Trustee Queenin	Yes

Motion passed unanimously.

There being no further business, MOTION to adjourn made by Trustee Landrau, seconded by Trustee Boudreau.

ROLL CALL VOTE taken:

Trustee Boudreau	Yes	Trustee Salehi	Yes
Trustee Landrau	Yes	Trustee Queenin	Yes

Motion passed unanimously.

The meeting adjourned at 4:04 PM.

Attachment(s):

- a. Minutes 11-2-20 (Draft)
- b. Distribution of Investment Earnings
- c. Quarterly Investment Results
- d. Motion – Investment Policy
- e. Investment Policy (Letter)
- f. Investment Policy (Track Changes)
- g. Investment Policy (No Track Changes)

Secretary’s Certificate

I hereby certify that the foregoing is a true and correct copy of the approved minutes of the Westfield State University Board of Trustees Investment Subcommittee meeting held on May 17, 2021.

Paul Boudreau, Secretary

Date



To: **Westfield State University Board of Trustees Investment Subcommittee**

Date: November 12, 2021

Re: **WSU's Investment Portfolio Distribution Percentage**

Thank you for giving us the opportunity to meet with you on November 12 to discuss Westfield State University's annual distribution percentage from its investment portfolio while maintaining the principal and interest over a long term (5-10 year) time horizon.

Based on other not-for-profit distribution rates and your portfolio's performance, we would suggest you consider **4% distribution of the portfolio's rolling twelve quarter market value**. A moving average method tends to "smooth" the overall spending rate and to reduce the impact of a single year's increase or decrease in portfolio value. This method involves the application of a spending policy rate to a moving average of beginning-period market values over a defined historical period (typically three years or 12 quarters.) We estimate 4% distribution could be made while maintaining the portfolio's principal value over the long-term.

Your current Investment Policy Statement goal has been to grow the aggregate portfolio net of spending at the rate of inflation in order to maintain purchasing power. The following summarizes the investment mandate and strategy Eaton Vance has been implementing for Westfield State University (WSU).

Your Investment Objective as reflected in WSU's Investment Policy Statement has been *"To provide for the University's cash flow requirements while also preserving and enhancing the portfolio's inflation adjusted purchasing power. In accordance with your objectives, your Investment Policy states that "the Fund has a long-term investment horizon and believes that asset allocation is the major determinant of investment performance."*

At inception in September 2019, the WSU portfolio was \$20 Million. 69% of the portfolio is invested in diversified equities and 31% is invested in Fixed Income & Cash.

WSU Portfolio with Eaton Vance as of November 9, 2021

Equity	\$ 17.8 Million (69%)
Bonds & Cash	\$ 8.2 Million (31%)
Total Market Value	\$ 26.0 Million (100%)

WSU's returns for the past two plus years have been superb (+13.8% annualized) with a portfolio that has performed well in down markets as well as in up markets.

WSU could consider 4% distribution percentage for the follow reasons:

Non-profit peers are using a 4% distribution percentage:

A recent Vanguard article highlighted that most non-profits had distribution rates between 4% and 4.5% over the long-term: <https://institutional.vanguard.com/offers/nonprofit-spending-policy.page>

A Meketa Investment Group article noted on Page 15 that Public College & Universities distribution rates over the past ten years ranged between 3.7% and 4.3% with a ten-year average of 4%. (link below)
<https://meketa.com/wp-content/uploads/2012/10/EF-Spending-Policy-FINAL.pdf>

Note: Both of these articles reference the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and a 2018 NACUBO-TIAA study of endowments. UPMIFA does not provide a recommendation of specific distribution percentages.

E-Money Cash Flow projections:

We ran projections utilizing eMoney financial projection software based on returns that were below historic asset class returns and found the current WSU portfolio has a high probability of maintaining its principal value over the next ten years. E-Money integrates statistical methodologies to calculate the probability of certain financial outcomes at certain times in the future. (report available)

It should be noted that Eaton Vance has no way of predicting the future and these statements should be considered similar to any financial projection in that actual results will differ.

Our experience as fiduciary investment professionals and our experience with other non-profit clients gives us confidence that 4% distribution is a sensible option for WSU; but we also recognize the importance of the Board's comfort level with a stated distribution rate. As such, we would suggest any distribution rate chosen will be appropriate for WSU.

In closing, we are grateful for our two-year partnership with WSU and our ten-year relationship with Massachusetts Higher Education Collaborative. We look forward to discussing this recommendation as well as further refinements with you on November 12th.

Thank you.

Higher Education Collaborative Investment Team



Duke E. LaFlamme, CFA



Robert C. Quinn, CFP, CFA

**Average Annual Effective Spending Rates* for U.S. College and University Endowments
and Affiliated Foundations, Fiscal Years 2020 to 2011**

Size of Endowment	2020 %	2019 %	2018 %	2017 %	2016 %	2015 %	2014 %	2013 %	2012 %	2011 %
Over \$1 Billion	4.5	4.6	4.6	4.8	4.4	4.3	4.6	4.8	4.7	5.2
\$501 Million to \$1 Billion	4.4	4.4	4.2	4.6	4.3	4.1	4.3	4.6	4.7	5.2
\$251 Million to \$500 Million	4.4	4.2	4.4	4.4	N/A	N/A	N/A	N/A	N/A	N/A
\$101 Million to \$250 Million	4.7	4.7	4.4	4.6	4.3	4.1	4.3	4.4	4.3	5.0
\$51 Million to \$100 Million	5.0	4.6	4.6	4.5	4.4	4.4	4.4	4.4	4.3	4.5
\$25 Million to \$50 Million	4.6	4.5	4.1	4.2	4.1	4.0	4.2	4.3	3.8	4.0
Under \$25 Million	4.1	4.1	4.1	4.0	3.8	4.5	4.6	4.1	3.7	3.7
Type of Institution										
Public Colleges and Universities	4.1	4.2	3.8	4.1	4.0	4.0	4.1	4.1	4.0	4.5
<i>Public College, University or System</i>	4.1	4.2	3.8	4.1	4.0	3.8	3.8	4.2	3.9	4.3
<i>Institution-Related Foundations</i>	4.1	4.2	3.8	4.1	3.9	4.2	4.3	4.0	4.0	4.1
<i>Combined Endowment/Foundation</i>	4.0	4.1	3.9	4.2	4.1	3.9	4.2	4.4	4.2	5.9
Private Colleges and Universities	4.9	4.7	4.7	4.6	4.4	4.3	4.5	4.6	4.3	4.6
All Others[#]	3.3	N/A								
Average (All Institutions)	4.6	4.5	4.4	4.4	4.3	4.2	4.4	4.4	4.2	4.6

N/A means not available.

All data are for years ending June 30. Data for 2011 through 2017 are from the NACUBO-Commonfund Study of Endowments.

All spending rate data are equal weighted.

[#]Includes education-related nonprofit organizations.

***The effective spending rate represents the distribution for spending divided by the beginning market value (endowment value on or around the beginning of the fiscal year). The distribution for spending is the dollar amount withdrawn from the endowments to support expenditures on student financial aid, faculty research, maintenance of facilities, and other campus operations, as determined and defined by each institution. The rate is calculated net of investment fees and expenses for managing the endowment.**



Board of Trustees

November 22, 2021

MOTION

To approve the changes and accept the newly revised Investment Policy (0430), as presented.

Robert A. Martin, Ph.D., Chair

Date

INVESTMENT POLICY

STATEMENT OF PURPOSE

Chapter 15A of Massachusetts General Laws provides that the Westfield State University Board of Trustees (Trustees) has the authority to establish and manage trust funds. The administration of these funds will comply with MGL Chapter 73 § 14 and with MGL Chapter 180A; also known as the Uniform Management of Institutional Funds Law. This Investment Policy is intended to serve as a basis for actions of management in carrying out its investment duties, and for the Trustees in monitoring management's investment activities. A concurrent responsibility of the management of the funds is the thoughtful investment of trust monies. The University may use the services of one or more investment management firms and/or a bank trust department (Investment Manager(s)) to carry out the University's investment activities. The basic responsibility of the Investment Manager(s) will be to keep management of the University abreast of the economy and market conditions and to invest in a mix of eligible instruments within the context of laws, regulations and this investment policy. The Investment Manager(s) shall be approved by the Board of Trustees as part of this policy. University management may delegate authority to the Investment Manager(s) to act within the boundaries of this policy.

SCOPE

This Investment Policy applies to funds that are not appropriated by the Commonwealth of Massachusetts and specifically excludes federal or other restricted allocations. All funds are accounted for in the University's financial reports. The overall goal is to establish and maintain an investment portfolio which is designed to provide for the University's cash flow requirements and principal growth of certain fund balances.

INVESTMENT SUBCOMMITTEE

A subcommittee will be formed called the Investment Subcommittee and will oversee the investment portfolio, policy and the selection of an investment advisor. The subcommittee is established under the Finance and Capital Assets Committee who has formal authority over investments, as provided in the Trustee by Laws. The composition of the Investment Subcommittee may have members other than trustees who can provide guidance but will not be voting members of the subcommittee. The subcommittee will be staffed by the Vice President for Administration and Finance and or their designee.

INVESTMENT OBJECTIVE

It is the investment objective of the University to establish and maintain an investment portfolio which is designed to provide for the University's cash flow requirements while also achieving long-term capital growth and appreciation of the portfolio. The basic objectives of the Investment Policy are:

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- a. Preservation of Capital and Safety of Principal – Investment of Westfield State University funds shall be undertaken in a manner that seeks to ensure the preservation of capital and safety of principal. Implicit in this objective is the financial goal of preserving and enhancing the portfolio's inflation adjusted purchasing power.
- b. Minimizing Price Volatility – This Investment Policy prohibits investments in securities with the potential for wide price volatility. (See Prohibited Investments).
- c. Return on Investment - Investment income is an integral part of the University's annual budget and long term viability. The portfolio of Westfield State University shall be designed to attain an optimal rate of return under shifting economic conditions and investment cycles.

ASSET ALLOCATION

The responsibility for establishing periodic asset allocation that is consistent with the objectives of the overall Investment Policy is under the purview of the Trustees Finance and Capital Asset Committee with recommendations from the Investment Subcommittee and with specific responsibilities assigned to the Vice President for Administration and Finance. The Investment Subcommittee shall review the allocations twice a year and will report up to the Finance and Capital Assets Committee with its findings. The investment mix selected should reflect the risk level periodically determined to be appropriate for the University investment portfolio. It is recognized that over the long-term, the allocation between the equity and fixed income allocation will be the single most important determinate of the portfolio's investment performance.

Asset allocation of the University portfolio should be equivalent to approximately 60% in equities, 38% in fixed income and 2% in cash. Managed funds that include both equity and fixed income underlying investments shall be distributed to the appropriate portfolio category for the purpose of reviewing asset allocation. Recognizing that from time-to-time during the course of business it is not realistic to expect complete compliance with this guideline, an acceptable range follows:

	<u>Goal</u>	<u>Acceptable Range</u>
Equities	60%	45-70%
Fixed Income	38%	30-60%
Alternative Investments	---	---
Cash	2%	0-10%

Any asset allocation not within these ranges should be communicated by the Investment Managers(s) to management as soon as practicable, but no later than the next quarterly status report to the University. The portfolio should be re-balanced to fit within the acceptable ranges defined in this policy as soon as practical, taking investment risks into consideration.

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The Investment Manager(s) is expected to rebalance the portfolio at least annually. Rebalancing recommendation discussions will be part of the ongoing dialogue between the investment manager and the investment committee. Rebalancing is allowed if it is within the acceptable range.

PROHIBITED INVESTMENTS

Investment in derivative securities, forwards, swaps, futures of any type are explicitly prohibited via direct or indirect involvement under this policy.

DELEGATION OF AUTHORITY

Oversight responsibility for the investment program is delegated to the Finance and Capital Assets Committee and includes asset allocation, and active management decisions consistent with this policy. No University official may execute or cause any investment transaction except as allowed or provided under the terms of this Investment Policy and specific investment procedures that may be periodically established by the Finance and Capital Assets Committee at the recommendation of the Investment Subcommittee. The University's investments shall be secured through third party custody and safe keeping procedures. Bearer instruments shall be held only through third party institutions (i.e. a custodian or a trustee).

Roles and Responsibilities

The Vice President for Administration and Finance (VPAF), with oversight from the Finance and Capital Assets Committee, shall have the overall responsibility for implementing the management of the Investment Policy. The Associate Vice President for Finance shall have the responsibility of implementing the investment program, including executing the related transactions, accounting and reporting of the activity. The Finance and Capital Assets Committee, upon recommendation by the Investment Subcommittee and University Management, will appoint the investment advisor/manager. The Investment Policy's related procedures shall comply with the University's Internal Control Plan.

ETHICS AND CONFLICT OF INTEREST

The Trustees, officers and employees of Westfield State University involved in the investment process are prohibited from personal business activities that could impair their ability to make impartial investment decisions. The perception of a conflict of interest must be avoided. All ethics rules and laws of the Commonwealth of Massachusetts are hereby incorporated by reference into this policy.

REPORTING

University management shall provide quarterly reports from the investment advisor, summarizing investment activity and detail to the Finance and Capital Assets Committee through the Investment Subcommittee.

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AUDITS

The University retains the option to request an independent audit of the funds invested through the investment advisor.

INVESTMENTS

With stability, capital growth and total return as essential objectives in this Investment Policy, available funds will be invested in instruments consistent with the objective and asset allocation methodology.

The University's investment portfolio, for purposes of this policy statement, shall consist of three major categories of financial investments: (1) fixed income - short and long term (bonds); (2) equity (stocks/managed funds); (3) cash or cash equivalents.

Total fees (advisory and expenses) for the Investment Advisor/Manager will be limited to 100 basis points unless approved by the Finance and Capital Assets Committee.

1. Fixed Income - short term and long term (bonds):

(a) *Fixed Income – short-term.* These are investments which have maturities of no longer than one year. The purpose of the fixed income short-term investment portfolio shall be to provide sufficient liquidity to meet institutional objectives. The use of this portion of the portfolio shall be consistent with management's anticipated cash flow needs and future investment opportunities.

(b) *Fixed Income – long-term.* These are investments which have maturities of more than one year from the date of investment. The purpose of the long-term portion of the investment portfolio shall be to maximize return within the context of other recognized needs and risks. The portfolio shall be considered for purposes of capital growth and the provision of long term funding of capital needs. Eligible securities and other restrictions are as follows:

1. U.S. Treasury and Federal Agency Securities

- a. Maximum size of portfolio - no limit
- b. Maximum lot size - no limit
- c. Mutual funds or ETFs consisting of individual securities that meet the above characteristics

2. Corporate Bonds

- a. Aggregate limit of all corporate bonds: 35% of capital (prudently diversified)
- b. All individual corporate bonds shall have a rating of Baa3/BBB- or better as published by Moody's or Standard & Poor's at the time of purchase. If a bond is downgraded below Baa3/BBB-, the manager shall sell as soon as prudently possible.

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- c. Mutual funds or exchange traded funds (ETFs) consisting of individual securities that meet the above characteristics
- d. Mutual funds or ETFs holding broadly diversified portfolios of bonds with credit ratings above Baa3/BBB- as published by Moody's or Standard & Poor's at the time of purchase.

3. Municipal/Other Tax Exempt Issues

- a. Municipal bonds and other tax exempt bond issues offer an opportunity that allows investors to avoid payment of taxes on income or capital gains resulting from the investment. Since the University is a tax-exempt entity that does not pay taxes, municipal bonds and other tax exempt bond issues are generally not advantageous to the investment portfolio although not necessarily prohibited within the portfolio. Depending on market conditions, these instruments may be appropriate and attractive even without the benefit of the tax shelter.

4. Preferred Stocks (Considered Fixed Income)

- a. Aggregate limit of preferred stocks of 15% of total portfolio (prudently diversified).
- b. All individual preferred have a rating of Baa3/BBB- or better as published by Moody's or Standard & Poor's at the time of purchase.

2. **Equity (stocks):**

The purpose of the equity investment portfolio shall be to maximize return and provide a hedge against inflation through a diversified approach in compliance with applicable Massachusetts statutes. Eligible securities, appropriate rating service and dividend policy follow.

Equities generally refer to the common or preferred stock in publicly-traded companies, but they may also be in the form of managed funds, which include such investment vehicles as mutual funds, exchange traded funds (ETFs) and other types of funds that function in a managed way but are not directly managed by the University's Investment Manager. Managed funds of this sort are acceptable in the University's portfolio if they are consistent with the standards that otherwise apply to equities.

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Westfield State Custom Benchmark		
		Policy Benchmark
Barclays U.S Government Credit Intermediate	Fixed Income	35%
BofAML 0-3 Month US T-Bill Index	Cash	5%
Fixed Income		40%
S&P 500	Large Cap	30%
MSCI EAFE (NET)	Developed	15%
MSCI Emerging Markets	Emerging	6%
Russell 2000 Index	Small Cap	5%
Russell 2500 Index	Mid Cap	4%
Equity		60%

“Alternative Investments” may include private (unregistered) securities such as hedge funds, private equity funds, venture capital funds, commodities, precious or industrial metals, etc. While these are not expressly prohibited in this policy, it is anticipated that they will be used sparingly if at all. This provision also applies to registered “liquid alternative” mutual funds that are designed to mimic private unregistered funds. To the extent that any Alternative Investments are used, they will be counted as Equities for the purpose of reviewing asset allocation.

3. Cash and Cash Equivalents:

Cash and cash equivalents are instruments that are relatively “liquid” in nature and are available for operational and/or investment opportunities. This component of the portfolio should be minimal.

4. Prohibited Investments:

Investment in derivative securities, forwards, swaps, futures of any type are explicitly prohibited via direct or indirect involvement under this policy.

5. Fossil Fuel and Alternative Investment Strategy:

The university’s investment advisors are instructed to consider further divestment from direct holdings in the balance of the Carbon Underground 200 list to the

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extent the advisers believe it is financially prudent with the goal of achieving full divestment. The advisors are further instructed to invest in alternative and/or renewable energy companies, consistent with the parameters of this investment policy as they may deem financially prudent.

Note: It is not a requirement that the State Colleges and Universities must avoid the Carbon Underground 200 list. Imposing the requirement will impact investment performance.

SPENDING POLICY

The University has adopted the following spending policy, which will apply to the WSU investment portfolio.

1. This Policy seeks an appropriate balance among the following goals:
 - a. Provide the University with a predictable and stable stream of revenue
 - b. Ensure the real value (defined as purchasing power) of the invested assets and its revenue stream does not decline over the long term
 - c. Base the spending policy on best practices for similar organizations or market segments (e.g., treat the invested funds as endowment like).
2. Authorized expenditures during an upcoming fiscal year shall be limited to four percent (4%) of the average total market value of the investment portfolio over a trailing twelve quarter period ending June 30 fiscal year, not to include additions during the current fiscal year. In the event the average annualized total return for the trailing three year period fails to equal or exceed 4%, then the University shall calculate the new percentage and seek approval from the Finance and Capital Assets Committee for an exception to the 4% threshold. The amount for the upcoming fiscal year is to be calculated each June 30th and will be reviewed and approved annually by the Finance and Capital Assets committee with a recommendation from the Investment Sub-Committee.
3. In making such distributions, the University is authorized to use both Net Income and Net Capital Appreciation (defined as realized and unrealized appreciation in the fair market value of the investments) in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).
4. Exceptions to or changes in this spending policy shall only be made by approval of the Board of Trustees based on recommendations from the WSU Finance and Capital Assets Committee (and the Investment Subcommittee).

REVIEW

This policy shall be reviewed annually by the Vice President for Administration and Finance and the Investment Subcommittee with changes approved by the Finance and Capital Assets Committee.

INVESTMENT POLICY

STATEMENT OF PURPOSE

Chapter 15A of Massachusetts General Laws provides that the Westfield State University Board of Trustees (Trustees) has the authority to establish and manage trust funds. The administration of these funds will comply with MGL Chapter 73 § 14 and with MGL Chapter 180A; also known as the Uniform Management of Institutional Funds Law. This Investment Policy is intended to serve as a basis for actions of management in carrying out its investment duties, and for the Trustees in monitoring management's investment activities. A concurrent responsibility of the management of the funds is the thoughtful investment of trust monies. The University may use the services of one or more investment management firms and/or a bank trust department (Investment Manager(s)) to carry out the University's investment activities. The basic responsibility of the Investment Manager(s) will be to keep management of the University abreast of the economy and market conditions and to invest in a mix of eligible instruments within the context of laws, regulations and this investment policy. The Investment Manager(s) shall be approved by the Board of Trustees as part of this policy. University management may delegate authority to the Investment Manager(s) to act within the boundaries of this policy.

SCOPE

This Investment Policy applies to funds that are not appropriated by the Commonwealth of Massachusetts and specifically excludes federal or other restricted allocations. All funds are accounted for in the University's financial reports. The overall goal is to establish and maintain an investment portfolio which is designed to provide for the University's cash flow requirements and principal growth of certain fund balances.

INVESTMENT SUBCOMMITTEE

A subcommittee will be formed called the Investment Subcommittee and will oversee the investment portfolio, policy and the selection of an investment advisor. The subcommittee is established under the Finance and Capital Assets Committee who has formal authority over investments, as provided in the Trustee by Laws. The composition of the Investment Subcommittee may have members other than trustees who can provide guidance but will not be voting members of the subcommittee. The subcommittee will be staffed by the Vice President for Administration and Finance and or their designee.

INVESTMENT OBJECTIVE

It is the investment objective of the University to establish and maintain an investment portfolio which is designed to provide for the University's cash flow requirements while also achieving long-term capital growth and appreciation of the portfolio. The basic objectives of the Investment Policy are:

Westfield State University

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- a. Preservation of Capital and Safety of Principal – Investment of Westfield State University funds shall be undertaken in a manner that seeks to ensure the preservation of capital and safety of principal. Implicit in this objective is the financial goal of preserving and enhancing the portfolio's inflation adjusted purchasing power.
- b. Minimizing Price Volatility – This Investment Policy prohibits investments in securities with the potential for wide price volatility. (See Prohibited Investments).
- c. Return on Investment - Investment income is an integral part of the University's annual budget and long term viability. The portfolio of Westfield State University shall be designed to attain an optimal rate of return under shifting economic conditions and investment cycles.

ASSET ALLOCATION

The responsibility for establishing periodic asset allocation that is consistent with the objectives of the overall Investment Policy is under the purview of the Trustees Finance and Capital Asset Committee with recommendations from the Investment Subcommittee and with specific responsibilities assigned to the Vice President for Administration and Finance. The Investment Subcommittee shall review the allocations twice a year and will report up to the Finance and Capital Assets Committee with its findings. The investment mix selected should reflect the risk level periodically determined to be appropriate for the University investment portfolio. It is recognized that over the long-term, the allocation between the equity and fixed income allocation will be the single most important determinate of the portfolio's investment performance.

Asset allocation of the University portfolio should be equivalent to approximately 60% in equities, 38% in fixed income and 2% in cash. Managed funds that include both equity and fixed income underlying investments shall be distributed to the appropriate portfolio category for the purpose of reviewing asset allocation. Recognizing that from time-to-time during the course of business it is not realistic to expect complete compliance with this guideline, an acceptable range follows:

	<u>Goal</u>	<u>Acceptable Range</u>
Equities	60%	45-70%
Fixed Income	38%	30-60%
Alternative Investments	---	---
Cash	2%	0-10%

Any asset allocation not within these ranges should be communicated by the Investment Managers(s) to management as soon as practicable, but no later than the next quarterly status report to the University. The portfolio should be re-balanced to fit within the acceptable ranges defined in this policy as soon as practical, taking investment risks into consideration.

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The Investment Manager(s) is expected to rebalance the portfolio at least annually. Rebalancing recommendation discussions will be part of the ongoing dialogue between the investment manager and the investment committee. Rebalancing is allowed if it is within the acceptable range.

PROHIBITED INVESTMENTS

Investment in derivative securities, forwards, swaps, futures of any type are explicitly prohibited via direct or indirect involvement under this policy.

DELEGATION OF AUTHORITY

Oversight responsibility for the investment program is delegated to the Finance and Capital Assets Committee and includes asset allocation, and active management decisions consistent with this policy. No University official may execute or cause any investment transaction except as allowed or provided under the terms of this Investment Policy and specific investment procedures that may be periodically established by the Finance and Capital Assets Committee at the recommendation of the Investment Subcommittee. The University's investments shall be secured through third party custody and safe keeping procedures. Bearer instruments shall be held only through third party institutions (i.e. a custodian or a trustee).

Roles and Responsibilities

The Vice President for Administration and Finance (VPAF), with oversight from the Finance and Capital Assets Committee, shall have the overall responsibility for implementing the management of the Investment Policy. The Associate Vice President for Finance shall have the responsibility of implementing the investment program, including executing the related transactions, accounting and reporting of the activity. The Finance and Capital Assets Committee, upon recommendation by the Investment Subcommittee and University Management, will appoint the investment advisor/manager. The Investment Policy's related procedures shall comply with the University's Internal Control Plan.

ETHICS AND CONFLICT OF INTEREST

The Trustees, officers and employees of Westfield State University involved in the investment process are prohibited from personal business activities that could impair their ability to make impartial investment decisions. The perception of a conflict of interest must be avoided. All ethics rules and laws of the Commonwealth of Massachusetts are hereby incorporated by reference into this policy.

REPORTING

University management shall provide quarterly reports from the investment advisor, summarizing investment activity and detail to the Finance and Capital Assets Committee through the Investment Subcommittee.

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AUDITS

The University retains the option to request an independent audit of the funds invested through the investment advisor.

INVESTMENTS

With stability, capital growth and total return as essential objectives in this Investment Policy, available funds will be invested in instruments consistent with the objective and asset allocation methodology.

The University's investment portfolio, for purposes of this policy statement, shall consist of three major categories of financial investments: (1) fixed income - short and long term (bonds); (2) equity (stocks/managed funds); (3) cash or cash equivalents.

Total fees (advisory and expenses) for the Investment Advisor/Manager will be limited to 100 basis points unless approved by the Finance and Capital Assets Committee.

1. Fixed Income - short term and long term (bonds):

(a) *Fixed Income – short-term.* These are investments which have maturities of no longer than one year. The purpose of the fixed income short-term investment portfolio shall be to provide sufficient liquidity to meet institutional objectives. The use of this portion of the portfolio shall be consistent with management's anticipated cash flow needs and future investment opportunities.

(b) *Fixed Income – long-term.* These are investments which have maturities of more than one year from the date of investment. The purpose of the long-term portion of the investment portfolio shall be to maximize return within the context of other recognized needs and risks. The portfolio shall be considered for purposes of capital growth and the provision of long term funding of capital needs. Eligible securities and other restrictions are as follows:

1. U.S. Treasury and Federal Agency Securities

- a. Maximum size of portfolio - no limit
- b. Maximum lot size - no limit
- c. Mutual funds or ETFs consisting of individual securities that meet the above characteristics

2. Corporate Bonds

- a. Aggregate limit of all corporate bonds: 35% of capital (prudently diversified)
- b. All individual corporate bonds shall have a rating of Baa3/BBB- or better as published by Moody's or Standard & Poor's at the time of purchase. If a bond is downgraded below Baa3/BBB-, the manager shall sell as soon as prudently possible.

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- c. Mutual funds or exchange traded funds (ETFs) consisting of individual securities that meet the above characteristics
- d. Mutual funds or ETFs holding broadly diversified portfolios of bonds with credit ratings above Baa3/BBB- as published by Moody's or Standard & Poor's at the time of purchase.

3. Municipal/Other Tax Exempt Issues

- a. Municipal bonds and other tax exempt bond issues offer an opportunity that allows investors to avoid payment of taxes on income or capital gains resulting from the investment. Since the University is a tax-exempt entity that does not pay taxes, municipal bonds and other tax exempt bond issues are generally not advantageous to the investment portfolio although not necessarily prohibited within the portfolio. Depending on market conditions, these instruments may be appropriate and attractive even without the benefit of the tax shelter.

4. Preferred Stocks (Considered Fixed Income)

- a. Aggregate limit of preferred stocks of 15% of total portfolio (prudently diversified).
- b. All individual preferred have a rating of Baa3/BBB- or better as published by Moody's or Standard & Poor's at the time of purchase.

2. **Equity (stocks):**

The purpose of the equity investment portfolio shall be to maximize return and provide a hedge against inflation through a diversified approach in compliance with applicable Massachusetts statutes. Eligible securities, appropriate rating service and dividend policy follow.

Equities generally refer to the common or preferred stock in publicly-traded companies, but they may also be in the form of managed funds, which include such investment vehicles as mutual funds, exchange traded funds (ETFs) and other types of funds that function in a managed way but are not directly managed by the University's Investment Manager. Managed funds of this sort are acceptable in the University's portfolio if they are consistent with the standards that otherwise apply to equities.

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Westfield State Custom Benchmark		
		Policy Benchmark
Barclays U.S Government Credit Intermediate	Fixed Income	35%
BofAML 0-3 Month US T-Bill Index	Cash	5%
Fixed Income		40%
S&P 500	Large Cap	30%
MSCI EAFE (NET)	Developed	15%
MSCI Emerging Markets	Emerging	6%
Russell 2000 Index	Small Cap	5%
Russell 2500 Index	Mid Cap	4%
Equity		60%

“Alternative Investments” may include private (unregistered) securities such as hedge funds, private equity funds, venture capital funds, commodities, precious or industrial metals, etc. While these are not expressly prohibited in this policy, it is anticipated that they will be used sparingly if at all. This provision also applies to registered “liquid alternative” mutual funds that are designed to mimic private unregistered funds. To the extent that any Alternative Investments are used, they will be counted as Equities for the purpose of reviewing asset allocation.

3. Cash and Cash Equivalents:

Cash and cash equivalents are instruments that are relatively “liquid” in nature and are available for operational and/or investment opportunities. This component of the portfolio should be minimal.

4. Prohibited Investments:

Investment in derivative securities, forwards, swaps, futures of any type are explicitly prohibited via direct or indirect involvement under this policy.

5. Fossil Fuel and Alternative Investment Strategy:

The university’s investment advisors are instructed to consider further divestment from direct holdings in the balance of the Carbon Underground 200 list to the

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extent the advisers believe it is financially prudent with the goal of achieving full divestment. The advisors are further instructed to invest in alternative and/or renewable energy companies, consistent with the parameters of this investment policy as they may deem financially prudent.

Note: It is not a requirement that the State Colleges and Universities must avoid the Carbon Underground 200 list. Imposing the requirement will impact investment performance.

SPENDING POLICY

The University has adopted the following spending policy, which will apply to the WSU investment portfolio.

1. This Policy seeks an appropriate balance among the following goals:
 - a. Provide the University with a predictable and stable stream of revenue
 - b. Ensure the real value (defined as purchasing power) of the invested assets and its revenue stream does not decline over the long term
 - c. Base the spending policy on best practices for similar organizations or market segments (e.g., treat the invested funds as endowment like).
2. Authorized expenditures during an upcoming fiscal year shall be limited to four percent (4%) of the average total market value of the investment portfolio over a trailing twelve quarter period ending June 30 fiscal year, not to include additions during the current fiscal year. In the event the average annualized total return for the trailing three year period fails to equal or exceed 4%, then the University shall calculate the new percentage and seek approval from the Finance and Capital Assets Committee for an exception to the 4% threshold. The amount for the upcoming fiscal year is to be calculated each June 30th and will be reviewed and approved annually by the Finance and Capital Assets committee with a recommendation from the Investment Sub-Committee.
3. In making such distributions, the University is authorized to use both Net Income and Net Capital Appreciation (defined as realized and unrealized appreciation in the fair market value of the investments) in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).
4. Exceptions to or changes in this spending policy shall only be made by approval of the Board of Trustees based on recommendations from the WSU Finance and Capital Assets Committee (and the Investment Subcommittee).

REVIEW

This policy shall be reviewed annually by the Vice President for Administration and Finance and the Investment Subcommittee with changes approved by the Finance and Capital Assets Committee.