FERRIS FOUNDATION

ENDOWMENT POOL
INVESTMENT POLICY
NOVEMBER 2019
INVESTMENT PHILOSOPHY

The Ferris Foundation recognizes the long-term nature of gifts in the form of endowment funds. The Ferris Foundation's intent is to maximize the investment returns of these funds using the following guidelines.

The Ferris Foundation wishes to maximize the financial benefit intended by the donor, to support the programs of its beneficiary university, Ferris State University, and to achieve growth of both principal value and income over time to preserve and increase the purchasing power of the assets. This document will describe the standards that will be utilized by the Investment Committee in monitoring investment performance, as well as, serve as a guideline for any investment manager retained.

Investment of funds not identified as part of the endowment pool will be received and invested under the guidelines established in the Unrestricted/Temporarily Restricted Investment Policy or the Charitable Gift Annuity Investment Policy.

INVESTMENT OBJECTIVE

The investment objective of the Foundation is to preserve and enhance the real (inflation-adjusted) purchasing power of endowment fund assets, consistent with agreed-upon levels of risk, while providing a relatively predictable stream of total earnings in line with spending needs. The total return concept will be used and is defined as the sum of capital appreciation (or loss) and current income achieved in the form of dividends and interest.

INVESTMENT COMMITTEE RESPONSIBILITY

The Investment Committee is charged with the responsibility for managing Foundation assets. The Investment Committee will discharge its duties solely in the interest of the Ferris Foundation and its beneficiary organization, Ferris State University.

The Investment Committee authorizes the Foundation Treasurer or his/her designee to act upon the direction and decisions of the Investment Committee. A formal record of investment decisions will be kept.

ADMINISTRATIVE RESPONSIBILITES

Day-to-day management of the assets of the Foundation will be the responsibility of the Foundation Treasurer, or his/her designee with oversight by the Foundation Executive Director.
The Foundation Treasurer may delegate authority in the completion of day-to-day management of the assets to specific internal or external individuals. This management may include such things as broker contacts, dividend/interest decisions, account maintenance, performance measure-ments, portfolio tracking and analysis, sale and purchase of investments, etc. The Foundation Investment Committee will know these individuals.

In the event that a manager needs to be terminated immediately and the Investment Committee is unable to meet to approve the termination, the Executive Director and/or Treasurer will attempt to contact all of the Investment Committee members to explain the rationale behind the recommendation. If a majority of the committee members cannot be reached to act upon the recommendation, the Treasurer or his/her designee is authorized to terminate the manager and invest the proceeds in an index fund or similar type of investment until the Investment Committee can meet. Other day to day management issues needing immediate attention will be reviewed with the investment advisor for impact to the portfolio and appropriate action. The Investment Committee will be notified of action prior to the event with any supporting information relevant to the event provided to members of the Committee.

The Investment Committee will review asset allocation and investment managers presented by its investment advisor, members of the Investment Committee or the individuals designated for day to day management of funds. The Investment Committee will review and act on the information and analysis gathered and presented.

SPENDING POLICY

The Ferris Foundation's annual distribution will be 4% of a 12 quarter moving average of the endowment's market value, but only to the extent that such distribution does not cause the value of the endowment fund on the annual December 31 valuation date to be less than the historic dollar value of the fund. No distributions will be made from an endowment whose value of the fund on the annual valuation date is less than historic dollar value. Returns in excess of the distribution are to be reinvested; however, an additional one percent of the 12 quarter moving average may be used to offset Foundation administration. Excess amounts of this administrative percentage not used for administrative operations will be added to the Foundation fund balance, which may be used for support of priority projects and related expenses identified by the President of the University, the Vice President for University Advancement & Marketing and the Executive Director of the Foundation. The Executive Director will advise Foundation officers and the Audit Committee of planned uses of such funds. Any uses from the fund balance will be reported regularly and formally to directors at meetings of the full board of directors.

The Investment Committee will periodically review the spending policy. Any deviations from this spending policy must be approved by the Foundation Board and recorded in official minutes.

The Investment Committee will evaluate overall investment objectives of maximizing the benefit intended by the donor and achieving growth of both principal value and income over time to preserve and increase the purchasing power of the endowment.

ASSET ALLOCATION

Disciplined management of the asset mix among classes of investments is both a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is a highly desirable objective. The Foundation's general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather, upon the broad nature of such investments and of the factors that may influence them. To insure broad diversification in the long-term investment portfolios among the major categories of investments, asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following target percentages and within the following ranges:

ASSET CATEGORY			Target	Range
Appreciation Assets				
	Public Equity			
		U.S. Large/Mid Cap	14%	9-19%
		U.S. Small Cap	5%	0-10%
		Non-U.S. Large/Mid Cap	7%	2-12%
		Global Equity	21%	16-26%
	Total Public Equity		47%	37-57%
		Private Equity	15%	0-25%
		Private Real Estate	10%	0-20%
	Total Appreciation Assets		72%	62-82%
Diversifying Assets				
		Private Credit	5%	0-10%
		Hedge Funds	10%	5-15%
		High Yield	3%	0-5%
	Total Diversifying Assets		18%	8-28%
Preservation Assets				
	Intermediate Fixed Income		10%	5-15%
	Cash		0%	0-5%
	Total Preservation Assets		10%	5-15%
Total Portfolio			100%	

Target Allocations

This paragraph has been added to explain the impact on the portfolio policy asset allocation targets and ranges during the multi-year phase in of the $17-18 million transferred to the Foundation by the University in November 2015. The Committee may make investments that exceed policy targets for one asset class, if targets of other asset classes such as private capital, i.e., cannot be immediately achieved. While investments may not meet target allocations at all times, the Committee will stay within established ranges. Large influxes of cash from gifts and investment transactions may temporarily exceed ranges until investment transactions can be processed.

Active vs. Passive Management

The asset allocation will be implemented using both active and passive investment managers. High efficient areas of the capital markets will be managed using primarily index funds and enhanced index/portable alpha strategies due to the lower probability of traditional active management outperforming an appropriate benchmark.

REBALANCING ASSET ALLOCATION

The Treasurer or his/her designee, with advice from the investment advisor, will monitor the asset allocation structure of the investment pool and will attempt to stay within the ranges allowed for each asset class. If the Treasurer and/or the investment advisor deems that the investment portfolio should be rebalanced for items such as funding private investment capital calls, other cash needs, or natural rebalancing to ensure asset classes remain within target ranges, the Investment Committee has granted the Treasurer or his/her designee the ability to rebalance up to 2% of the investment portfolio without formal approval. With that said, the Treasurer or his/her designee will communicate the rebalancing changes shortly after they occurred to the Foundation Executive Director and the Investment Committee. Rebalancing for purposes of funding capital calls or annual spending will normally come from overweighted asset classes unless the Investment Committee has approved being overweighted in a particular asset class.

LIQUIDITY

A goal of the Foundation is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that in many instances, the most appropriate investment option is one that comes with liquidity constraints. The Foundation will maintain a portfolio where no less than 40% of the portfolio is considered highly liquid in nature where assets can be sold within one day. Additionally, no more than 40% of the portfolio will be in illiquid, private capital funds. The percentage will be calculated on the market value of invested capital and not on committed capital.

HEDGE FUND STRATEGIES

Hedge funds will take both long and short positions, use leverage, and actively manage market exposure. For the hedge funds allocation to achieve the expected objectives without unnecessary risk, the Foundation will seek access to skilled hedge funds that are well-diversified.

ILLIQUID INVESTMENTS

The Foundation classifies illiquid investments into three categories: Private Equity, Private Real Estate, and Private Credit. Each illiquid fund will require a signed Subscription Agreement and Limited Partnership Agreement. The Foundation may wish to have each document reviewed by independent legal counsel.

Private Equity

The objective of the private equity allocation is to outperform, over the long-term, the public equity markets by 3%, net of fees. The return premium exists due to the lower cost of capital, higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

For the private equity allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. The Foundation's strategy will consider the following areas for diversification:

1) ***Sub-Category*** – venture capital, buyouts, distressed, energy/natural resources, etc.
2) ***Vintage Year*** – Capital commitments to private equity should be made continuously and thoughtfully over time. Returns are highly dependent on market cycles, and a portfolio diversified across time will reduce unnecessary risk, and should provide more consistent returns. Most funds will commit to funds over a 3 year time period as returns are dependent on market cycles.
3) ***Number of Investments*** – the number of individual commitments made for each private equity fund should mitigate firm specific risk, and should provide diversification within each deal.
4) ***Stage*** – spread across the life cycle of businesses. Within venture capital, investments should be made in early, mid and late stage companies. Buyout investments should cover small, mid and large market firms (in the form of traditional buyouts, growth equity, recapitalizations or restructuring).
5) ***Geography*** – Investments should be spread within the U.S., and expand internationally to the extent the Investment Committee approves.
6) ***Sector*** – The portfolio should be diversified by sector, as well as across industries within a sector.

Private Real Estate

The objective of the private real estate allocation is to provide low correlation to the public equity and fixed income markets and serve as an inflation hedge.
For the real estate allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. The Foundation's strategy will consider the following areas for diversification:

1) ***Sub-Category*** – value-added or opportunistic funds are designed to generate excess return for the overall real estate allocation.
2) ***Vintage Year*** – Capital commitments to private real estate should be made continuously and thoughtfully over time. Returns are highly dependent on market cycles, and a portfolio diversified across time will reduce unnecessary risk, and should provide more consistent returns. Most fund of funds will commit to funds over a 3 year time period as returns are dependent on market cycles.
3) ***Number of Investments*** – the number of commitments made for each private real estate fund should mitigate firm specific risk, and should provide diversification within each deal.
4) ***Geography*** – Investments should be spread within the U.S, and expand internationally to the extent the Investment Committee approves.
5) ***Property Type*** – The portfolio should be diversified across property types (e.g. apartments, office, industrial and retail).

Private Credit

The objective of the private credit allocation is provide low correlation to the equity markets and to generate attractive yields. For the private credit allocation to achieve the expected objectives without unnecessary risk, the Foundation should seek access to top-quality managers and be diversified. The Foundation's strategy will consider the following areas for diversification:

1) ***Sub-Category*** – primary focus of middle market senior loans and high yield bonds but mezzanine debt and distressed may be considered as well.

2) ***Vintage Year*** – Investments should be made continuously and thoughtfully over time. Returns are highly dependent on market cycles, and a portfolio diversified across time will reduce unnecessary risk, and should provide more consistent returns.
3) ***Number of Investments*** – the portfolio should be well diversified acorss the number of investments to mitigate single issuer risk.
4) ***Geography*** – Investments should be spread within the U.S, and expand internationally to the extent the Investment Committee approves.
5) **Stage/Type –** Diversification should exist among various industries.

Time Horizon

The majority of private equity, private real estate, and private credit investments will be made with private partnerships. These partnerships will range from 7-15 years in life, during which time the fund may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for the first 3-5 years (depending on the strategy). New investments may create a drag on fund performance in the early years (3-5 years) until these investments begin to mature.

Tax Implications

The Foundation is a tax-exempt organization, but may be subject to Unrelated Business Income Tax (UBIT). Since net risk adjusted returns are the primary objective of the Foundation, potential tax ramifications must be considered during the investment analysis and selection process. Additionally, the Foundation shall seek to minimize UBIT by selecting investment structures and geographic locations most beneficial to the Foundation.

TIME HORIZON

Due to the inevitability of short-term market fluctuations, the Investment Committee intends that the investment managers meet the following specific performance objectives and benchmarks over a 5-year moving period, net of investment management fees. Nonetheless, the Investment Committee reserves the right to evaluate and make any necessary changes regarding the investment manager over a shorter term using the criteria established in the "Evaluation of Investment Manager" section of this policy.

SPECIFIC PERFORMANCE OBJECTIVES & BENCHMARKS

Total Fund Objective

1. The total return objective is to exceed the Consumer Price Index + 5% (4% spending and 1% administrative fee).

2. The total return shall exceed a Target Weighted Index composed of the relevant indexes in the same proportion as the target asset mix as highlighted below.

Asset Class	Policy Benchmark	Target
Appreciation Assets		
U.S. Equity	Russell 3000 Index	19%
Non-U.S. Equity	MSCI ACWI ex.-U.S. Index	7%
Global Equity	MSCI ACWI Index IMI	21%
Private Equity	Russell 3000 Index (Lagged 3 months)	15%
Private Real Estate	Weighted Average Real Estate Benchmark*	10%
Total Appreciation		*72%*
Diversifying Assets		
Private Credit	CS Leveraged Loan Index	5%
Hedge Funds	HFRI Fund-of-Funds Index	10%
High Yield	Merrill Lynch High Yield Bond Index	3%
Total Diversifying		*18%*
Preservation Assets		
Intermediate Fixed Income	Bloomberg Barclays Aggregate Bond Index	10%
Total Preservation		*10%*

***The Weighted Average Real Estate Benchmark is comprised of the NCREIF Property Index and the DJ US Select Real Estate Securities Index.**

EVALUATION OF INVESTMENT MANAGERS

Each investment manager will be reviewed on an ongoing basis and evaluated upon the following criteria:

1. Ability to meet or exceed the performance objectives and comply with the requirements stated in this investment policy.

2. Adherence to the philosophy and style that were articulated to the Investment Committee at, or subsequent to, the time the investment manager was retained.

3. Continuity of personnel and practices at the firm.

INVESTMENT MANAGER REQUIREMENTS

1. In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable for the market environment in which investment decisions must be made. Therefore, it is the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care and prudence has been met for The Foundation's investments.

2. Although there are no strict guidelines that will be utilized in selecting managers, the Investment Committee will consider the length of time the firm has been in existence, its track record, assets under management, and the amount of assets The Ferris Foundation already has invested with the firm.

3. The requirements stated below apply to marketable investments (does not include Private Equity, Private Real Estate, Private Credit, or Hedge Funds) in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundation. Although the Investment Committee cannot dictate policy to pooled/mutual fund investment managers, the Investment Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this policy. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives.

    a. Each investment manager must satisfy the performance objectives and asset allocation guidelines.
    b. Each investment manager shall have the full investment discretion with regard to market timing and security selection, consistent with this Investment Policy.
    c. The investment managers shall be evaluated on a quarterly basis.
    d. The investment manager shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of The Ferris Foundation and consistent with the investment objectives contained herein.
    e. For diversification purposes, each equity portfolio manager shall have in excess of 20 positions.
    f. For definition purposes, derivative securities include, but are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs), principal only (PO) or interest only (IO) strips, inverse floating rate

securities, futures contracts, swaps, options, short sales, and margin trading. Before allowing managers to utilize derivative instruments, the Committee shall consider certain criteria including, but not limited to, the following:

i. Manager's proven expertise in such category
ii. Value added by engaging in derivatives
iii. Liquidity of instruments
iv. Actively traded by major exchanges (or for over-the-counter positions, executed with major dealers and counter parties)
v. Manager's internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints

g. The equity and fixed income investment managers shall not invest in non-marketable securities.
h. Each equity and fixed income investment manager must assure that no position of any one issuer shall exceed 8% of the manager's portfolio at market value, with the exception of securities issued by the U.S. government and its agencies.
i. Each intermediate fixed income manager must maintain an overall weighted average credit rating of "A" or better by Moody's and Standard & Poor's rating services. Each high yield manager must have an overall weighted average credit rating of "B" or better by Moody's and Standard & Poor's rating services.
j. Each intermediate fixed income manager must maintain a duration of no greater than +/-20% of its stated index.
k. The equity and fixed income investment managers shall not effect a purchase that would cause a position in the portfolio to exceed 5% of the issue outstanding at market value.
l. The investment manager shall immediately notify the Investment Committee in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.

CONCLUSION

This investment policy shall be reviewed annually. The investment performance will be reviewed on a quarterly basis with an independent third party providing the report. The managers may provide suggestions regarding appropriate adjustments to this policy.

Acknowledged by The Ferris Foundation Resolution FY21-08

11/06/2020
Date

Approved by Ferris Foundation Investment Committee on 8/25/2020.