

404. **Investment Policy and Guidelines**

I. **Statement of Purpose**

The purpose of this investment policy statement is to assist The Board of Trustees of The University of Alabama ("Board of Trustees") in effectively supervising and monitoring the investment activities of The University of Alabama System ("System") and to provide guidance to investment advisors employed to manage assets on its behalf. This statement represents the current investment philosophy consensus of the Board of Trustees and shall be reviewed from time-to-time to ensure that it continues to reflect the appropriate expectations, goals, and objectives for the different funds managed on behalf of the Board of Trustees.

II. **Definition of Responsibilities**

The Board of Trustees has delegated to the Investment Committee responsibility for recommending investment objectives, broad asset allocation changes, policies, and practices. The Investment Committee is responsible for overseeing investment activities and performance; for ensuring the proper control and safekeeping of the investment funds; for making changes within the broad asset allocation guidelines; and for the selection and approval of managers and custodians, and such advisors/consultants as are necessary to properly manage these funds.

III. **Reporting**

The System Office reports on the investments and performance of the investment pools monthly to the Investment Committee of the Board of Trustees, the Chancellor, Campus Presidents, and Campus Vice Presidents for Finance and Advancement. The investment pools consist of the Pooled Endowment Fund ("Endowment") and the Liquidity and Capital Reserve Pool.

Periodically, the advisor/consultant will make a presentation to the Investment Committee and show performance relative to benchmarks and peer institutions. The advisor/consultant will also provide other reporting as deemed necessary by the Committee.
A. **Investment Policy for Endowment Funds & Non-Reserve Assets**

I. **Investment Objectives**

The purpose of the Endowment is to support the System campuses, hospital, related foundations, and their missions over the long-term. Accordingly, the primary investment objectives of the Endowment are to:

A. Preserve the real purchasing power of the principal; and

B. Provide a stable source of perpetual financial support to the Endowment's beneficiaries.

To preserve the real purchasing power of the principal and provide a stable source of income to the beneficiaries of the Endowment, the long-term annualized total rate of return objective for the Endowment will be targeted at inflation as defined by the Consumer Price Index (CPI) plus the Endowment spending rate plus all fees and expenses. To satisfy its long-term rate of return objective, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from natural income (interest, dividends, royalties, and rents). Asset allocation guidelines and the investment manager structure should be established to meet the target return while providing adequate diversification to minimize the volatility of investment returns.

The Endowment assets are intended to support the System in perpetuity. For investment purposes, the Endowment Portfolio has a long-term investment horizon, and performance will be reviewed over full market cycles.

II. **Endowment Spending Policy**

The Board of Trustees shall attempt to balance the long-term objective of maintaining the purchasing power of the Endowment with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current objectives. The Board has established a Spending Rate for the Endowment of 4.5% of the 60-month moving average of unit market values. The Investment Committee will review the spending rate periodically.
In determining whether it is appropriate to make distributions, the System Office will comply with Section 4 of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Alabama and codified at Code of Alabama, 19-3C-1, et seq., or any successor statute or statutes governing such distributions. UPMIFA requires, if relevant, consideration of seven factors when determining when spending is prudent: “(1) the duration and preservation of the endowment fund; (2) the purposes of the institution and the endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the institution; (7) and the investment policy of the institution.”

At the institutional level, campus financial and advancement officers shall establish internal policies that temporarily prohibit distributions from an endowment fund that has a current market value less than its historical dollar value based on the UPMIFA guidelines. Historical value or corpus is defined as the original donor contribution plus any additional contributions, and any additions to historic dollar value as prescribed by the donor’s gift instrument. In all instances, the donor’s intent must be met.

To prevent spending before earnings have accumulated, effective October 1, 2017, any new endowment fund shall be invested in the Endowment for a consecutive period of 12 months prior to the distribution of a spending allocation of realized gains.

III. Endowment Asset Allocation

To achieve its investment objectives, the Endowment shall be allocated among a number of asset classes. The primary asset classes may include: global equity, global fixed income and cash, real assets, and diversifying strategies. The purpose of allocating among asset classes is to ensure the proper level of diversification within the Endowment. Further descriptions of the asset classes are below:

Global Equity – The allocation will consist of public equity, private equity,
and equity-oriented hedge funds. Global Equity is expected to be the highest risk, highest return asset category of the four. The allocation will be diversified by factors including security, sector, geography, market capitalization, and manager style.

**Global Fixed Income and Cash** – The allocation will consist of two broad categories: high quality/rate sensitive and global and credit/distressed.

1) High quality/rate sensitive investments are defined as managers where the majority of the portfolio is rated investment grade by S&P and Moody’s (Baa3/BBB- and above). These bonds provide equity risk mitigation, deflation protection, and liquidity to the portfolio.

2) Global and credit/distressed allocation will include high yield bonds, bank loans, emerging market debt, structured or asset backed bonds, debt oriented hedge funds, and private partnerships investing in debt (mezzanine loans, distressed debt, etc.). This allocation provides investment opportunities to generate a substantial real return but is more correlated with equity markets than high quality fixed income.

**Real Assets** – The allocation will consist primarily of real estate, natural resources, and infrastructure assets. Investments will include public securities, hedge funds, and private partnership structures. These investments are expected to provide inflation protection as well as generate positive real rates of return.

**Diversifying Strategies** – The allocation will consist of investments whose primary source of risk and return is not a constant allocation to one of the three asset classes listed above. This includes, but is not limited to, hedge funds whose approach can be described as “absolute return,” multi-strategy, event driven, relative value, or global macro.

The Investment Committee shall periodically review asset allocation targets, ranges, investment objectives, policies, and make changes in investment managers to reflect changes in market conditions, as well as changes in asset class valuations or investment manager performance.

IV. **Endowment Liquidity**

Liquidity is necessary not only to meet the spending policy payout requirements but also to satisfy demands in case of an extraordinary event. In many instances, investment opportunities come with liquidity constraints.
The tradeoff between opportunity and liquidity will be considered throughout the portfolio construction process. Sufficient liquidity should be maintained to fulfill the spending and operating objectives. Portfolio liquidity will be monitored using a three-tier system:

- **Liquid**: available within 90 days
- **Semi-liquid**: available in 90 days or more but less than 2 years
- **Illiquid**: available only in 2 years or more

New commitments will be made to illiquid/private capital investments with the intent to progress to a 40% allocation to private capital. A minimum of 30% of the portfolio will be held in liquid securities.

V. **In-Kind Gift Policy**

A. As a general rule, securities received as gifts will be sold on receipt and the proceeds added to the pooled fund, unless the Endowment documents require separate management, in which case the proceeds will be allocated to the investment managers. In those cases where the Investment Committee decides not to sell securities received as a gift, those securities will not be commingled with the rest of the endowment and will be accounted for separately until sold.

B. Gifts of real estate will be held at the individual campuses as separately managed assets until liquidated. Unless the real estate has strategic long term importance to the campuses or can be managed with existing land, timber, and mineral holdings for investment purposes, it should be liquidated as quickly as practical. Once the real estate is liquidated, the funds will be invested in the appropriate investment pool.

C. Annually, campuses are to provide to the System Office a report on all campus managed investments.

D. Annually, each campus will report on non-campus land and natural resources held for investment.

VI. **Life Income and Annuity Funds Investments**

The Board of Trustees assigns to campus presidents the responsibility for direct investment and administration of life income and annuity funds.
Investments are to be made in accordance with payout agreements determined at the time of initiation, subject to investment criteria for Endowment funds, as described above. With the approval of The Board of Trustees, external investment advisors may be retained to manage certain life income and annuity funds. Upon the death of the respective beneficiaries, the principal becomes available to the respective campus for the purposes described in each individual trust conveyance; investment of such funds will then be determined by the applicable funds investment policy.

B. **Investment Policy for System Reserves**

I. **Investment Objectives**

The System Office, with the guidance and advice of the campuses and hospital financial officers, is charged with developing and implementing an investment strategy that is consistent with matching the duration of the campuses’ working capital with their projected needs. Because the reserves also serve as collateral for each institution's debt, care is taken to make sure that investment risk levels and liquidity are appropriate for the financial condition of each individual campus. It is the responsibility of the System Office to ensure that cash is available to meet the liquidity needs of the campuses and the hospital. As all cash needs cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.

All System reserves are to be managed in one pooled fund, the Liquidity and Capital Reserve Pool, except for monies that are ineligible for inclusion in this pool, such as Endowment assets and life and annuity trusts, and cash held for operations at banks. The goals of the pool are to preserve and grow capital, maximize returns without undue exposure to risk, and maintain sufficient liquidity for credit ratings.

II. **Liquidity and Capital Reserve Pool Asset Allocation**

The Liquidity and Capital Reserve Pool shall be allocated among a number of asset classes as described in the Endowment Asset Allocation, excluding private equity, private debt, and private real assets. The pool does not distribute a spending rate and reinvests all income, but campuses are able to withdraw reserves as needed for operations with sufficient notice to the System Investment Office, described in III. Liquidity for System Reserves.
III. **Liquidity for System Reserves**

In many instances, investment opportunities come with liquidity constraints. The tradeoff between opportunity and liquidity will be considered throughout the portfolio construction process. Sufficient liquidity should be maintained to fulfill operating objectives with consideration to time horizons for the need of the reserves established between the campuses, hospital, and the System Office.

Campuses should provide the System Office with one business day notice for withdrawal requests up to $10 million. For requests greater than $10 million, requests should be made at a minimum of five business days in advance of receipt of funds.

Campuses may also request internal loans rather than liquidate invested assets. Campuses must submit an internal loan request at least five business days in advance of the requested date of receipt of funds. The System Office will analyze the pool’s liquidity, asset allocation and any available credit facilities when considering internal loan requests. Internal loans for working capital purposes will not exceed twelve months. Internal loans for capital purposes may also be considered.

Liquidity Policy guidelines for the Liquidity and Capital Reserve Pool are:

<table>
<thead>
<tr>
<th>Classification of Asset</th>
<th>Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid (within 30 days)</td>
<td>no less than 60%</td>
</tr>
<tr>
<td>Semi-liquid (31 days to 1 year)</td>
<td>no more than 40%</td>
</tr>
<tr>
<td>Illiquid (greater than 1 year)</td>
<td>no more than 15%</td>
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</tbody>
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Adopted as Rule 416, Investment Committee Operations on November 19,
APPENDIX 1

POOLED ENDOWMENT FUND (PEF) ASSET ALLOCATION

<table>
<thead>
<tr>
<th>Long Term Target</th>
<th>Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>55%</td>
</tr>
<tr>
<td>Fixed Income and Cash</td>
<td>15%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>15%</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

LIQUIDITY AND CAPITAL RESERVE POOL (LCRP) ASSET ALLOCATION

<table>
<thead>
<tr>
<th>Long Term Target</th>
<th>Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>45%</td>
</tr>
<tr>
<td>Fixed Income and Cash</td>
<td>35%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>10%</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

The advisor working with the System Office has the responsibility of rebalancing assets periodically to stay within the current asset allocation targets.

MANAGER DIVERSIFICATION

To ensure sufficient diversification for the PEF and the LCRP, there will not be an allocation of more than 10% to any active manager, and 15% to a passive manager at the time of investment.