

## 1.b Debt Management Policy

Responsible Office	Board of Directors		
Created	April 17, 2019		
Revised			
Effective	July 1, 2019		
Compliance	As of 1/2020 NWCCU 2.A.1, 2.E.2, 2.E.3 (prior: NWCCU 2.A.30)		
Classification	<input type="checkbox"/> Institutional	<input checked="" type="checkbox"/> Board of Directors	<input type="checkbox"/> Local unit(s):
Approving Body	<input type="checkbox"/> President's Cabinet	<input checked="" type="checkbox"/> Board of Directors	<input type="checkbox"/> Unit VP

### Policy

The Board of Directors shall approve all financing agreements, amendments, or modifications, following review by the Finance Committee. The Board of Directors may delegate authority to the President or Vice President of Finance of the University to execute approved agreements within stated parameters.

Long term debt account balances will be monitored monthly to ensure the proper interest and principal payments are reconciled.

Debt covenants shall be calculated as required by the terms of the debt agreement, annually at minimum.

All Board of Director policies are reviewed annually during the regularly scheduled fall meeting.

### Procedure

Debt Management Procedure

1. Staff present to the finance committee. Any financing agreement the u is interested in pursuing will be presented to the finance committee in a regularly scheduled meeting.
2. After deliberations, finance committee will present a recommendation to the board of direction for approval of the agreement.
3. Full board considers and votes. A majority vote approves the agreement.

### Related Documents

[1.c Financial Planning and Monitoring Policy](#)

[1.d Investment Policy](#)

## 1.c Financial Planning and Monitoring Policy

Responsible Office	Board of Directors		
Created	April 17, 2019		
Revised			
Effective	July 1, 2019		
Compliance	As of 1/2020 NWCCU 2.A.1, 2.E.2, 2.E.3 (prior: NWCCU 2.A.30, 2.F.1, 2.F.3, 2.F.5)		
Classification	<input type="checkbox"/> Institutional	<input checked="" type="checkbox"/> Board of Directors	<input type="checkbox"/> Local unit(s):
Approving Body	<input type="checkbox"/> President's Cabinet	<input checked="" type="checkbox"/> Board of Directors	<input type="checkbox"/> Unit VP

### Policy

It is the responsibility of the Board of Directors to plan and monitor the finances of the institution. The University utilizes a consistent budgeting process aligned with the mission, strategic plan, and initiatives, while addressing the overall financial sustainability of the institution. The Board of Directors is responsible for ensuring the institution has appropriate capital budgets to support and enhance the delivery of the University mission. The Board of Directors is responsible for ensuring the institution has appropriate capital budgets to support and enhance the delivery of the University mission.

For this purpose, the Board of Directors delegates the following responsibilities to the Finance Committee of the Board:

- Plan and monitor financial statements, cash flow statements, and balance sheets;
- Oversee the budget planning process to ensure alignment with the mission, strategic plan, and initiatives, while addressing the overall financial sustainability of the institution;
- Determine adequate reserves of the institution, depending on internal and external conditions;
- Recommend adequate cash flow systems for the operation of the budget.
- Recommend any transfers and borrowing between funds.

The Board of Directors is responsible for approval of Finance Committee actions.

All Board of Director policies are reviewed annually during the regularly scheduled fall meeting.

### Related Documents

[1.d Investment Policy](#)

[1.b Debt Management Policy](#)

Resolution Implementing Financial Policies

## 1.d Investment Policy

Responsible Office	CFO
Created	March 21, 2014
Revised	
Effective	March 21, 2014
Compliance	As of 1/2020 NWCCU 2.A.1, 2.E.2, 2.E.3 (prior: NWCCU 2.A.6, 2.A.30)
Classification	<input type="checkbox"/> Institutional   <input checked="" type="checkbox"/> Board of Directors   <input type="checkbox"/> Local unit(s):
Approving Body	<input type="checkbox"/> President's Cabinet   <input checked="" type="checkbox"/> Board of Directors   <input type="checkbox"/> Unit VP

### Policy

The assets covered by this policy shall provide capital for any approved purpose supporting Heritage University over specified periods ["determined" or "and guided"] by the purpose for which the assets are authorized.

### Scope of Investment Policy

This statement of investment policy reflects the investment policy, objectives, and constraints of the assets to be managed.

### Purpose of Investment Policy Statement

This statement of investment policy is set forth by the Heritage University Board in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding of all involved parties of the investment goals and objectives of the assets.
3. Provide guidance and limitations to all investment managers regarding the investment of assets.
4. Establish a basis for evaluating investment results.
5. Manage assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude, which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

### Delegation of Authority

The Board is a fiduciary and is responsible for directing and monitoring the investment management of the University's assets.

The Board is authorized to delegate responsibilities to the Finance Committee. Historically, the Board has assigned the Finance Committee with the responsibility to direct and monitor the University's compliance with the Statement of Investment Policy. As a result, the Finance Committee will be referenced in the remainder of this document.

The Finance Committee is authorized to delegate investment management responsibilities to professional experts in that field. These include:

- **Investment Manager.** The investment manager has discretion to purchase and sell securities that will be used to meet the investment objectives.

The Finance Committee will not reserve any control over investment management decisions, with the exception of specific limitations described in this statement. Investment managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications that they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Heritage University as deemed appropriate and necessary.

### **Assignment of Responsibility**

#### **Responsibility of the Investment Manager(s)**

Each investment manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each investment manager will have full discretion to make all investment decisions over the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints and philosophies as outlined in this statement. Specific responsibilities of the investment manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, at least quarterly investment performance results.
3. Communicating any material changes to economic outlook, investment strategy, or any other factors that affect implementation of the investment process, or the investment objective progress of the investment management.
4. Informing the Finance Committee regarding any qualitative change to the investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

### **General Investment Principles**

1. Investments shall be made solely in the interest of the University.
2. The assets shall be invested with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the investment of funds of like character and with similar goals.
3. Investment of the assets shall be diversified as to minimize the risk of material losses, unless under the circumstances it is clearly prudent not to do so.
4. The Finance Committee may employ one or more investment managers or varying styles and philosophies to meet the objectives.
5. Cash is to be employed productively at all times, by investment in short-term cash equivalents (money market funds) to provide safety, liquidity, and return.

### Investment Management Policy

1. Preservation of Capital – Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion – Understanding that risk is present in all types of securities and investment styles, the Finance Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline – Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to their investment discipline.

### General Investment Objectives

The investment objective involves striking a balance between cash flow for operating expenses, capital preservation, and growth of principal. Generating cash flow for operating expenses – is the key objective of the portfolio. Beyond the cash needed for operating expenses, growth of capital is desired to insure that the organization is capable of supporting its mission with stable or increasing income over the years. Thus, the organization desires a target annual return of 5% plus inflation, net of all management fees. For planning purposes, the portfolio will target an average annual return of 8% using a combination of bonds, stocks, and other investments.

The investment goal is the objective of the aggregate assets, and is not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. *Meet or exceed* the appropriate market indices, and blended market policy benchmark, selected and agreed upon by the Finance Committee that most closely corresponds to the style of investment management.

<b>Asset Class</b>	<b>Appropriate Market Index</b>
Fixed Income	Barclays Capital U.S. Aggregate Bond Total Return Index
All Cap Core	Russell 3000 Total Return Index
Large Cap Core	S&P 500 Total Return Index
Small Cap Core	Russell 2000 Total Return index
International Equity	MSCI EAFE net total Return Index MSCI All Country World Index, ex-USA Net Dividend
Global Equity	MSCI All Country World Net Total Return Index
Real Estate	Wilshire Real Estate Total Return Index FTSE EPRA/NAREIT Developed ex US Real Estate Index

Performance of the total portfolio will be compared to the blended policy benchmark. The blended policy benchmark is currently 30% Barclays Capital U.S. Aggregate Bond Total Return

Index and 70% equities (35% Russell 3000 Total Return Index and 35% MSCI All Country World ex USA Net Dividend Index). Blended policy benchmark asset class weights are rebalanced monthly.

<b>Blended Policy Benchmark</b>	
Barclays Capital U.S. Aggregate Bond Total Return Index	30%
Russell 3000 Total Return Index	35%
MSCI All Country World Index, ex-USA Net Dividend	35%

2. Display an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of monthly returns. The standard deviation percentage of the overall portfolio should not exceed 11.5%.

Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy. Each manager shall receive a written statement outlining their specific goals and constraints as they differ from those objectives set out in this document.

#### **Definition of Risk**

The Finance Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the assets understands how it defines risk so that the funds are managed in a manner consistent with the objectives and investment strategy as designed in this statement of investment policy. The Finance Committee defines risk as:

- The probability of not maintaining purchasing power over the investment horizon. Therefore, the risk level acceptable by the Finance Committee is conservative growth, with a primary goal of preservation of capital and a secondary goal of growth.

#### **Liquidity Requirements**

Consistent with Heritage University’s Spending Policy, the Endowment anticipates that it will disburse 4-6 percent of the value of its assets annually. Therefore, a portion of the Endowment should be investment in instruments that can be quickly converted to cash with no significant adverse change in value as a result of the liquidation.

#### **Investment Guidelines**

1. Cash Equivalents – Treasury Bills, Money Market Fund, STIF Fund, Commercial Paper, Banker’s Acceptances, Certificates of Deposit
2. Fixed Income Securities – US Government and Agency Securities, Corporate Notes and Bonds, Mortgage Backed Bonds
3. Equity Securities – Common Stocks, American Depository Receipts (ADRs) of Non-US Companies

4. Mutual Funds - which invest in securities as allowed in this statement.

#### **Derivative Investments**

The investment manager is not allowed to invest in derivative instruments as a primary investment, it will only be used as a vehicle to protect and preserve principal.

#### **Stock Exchanges**

To ensure liquidity and marketability, investment advisors may only purchase investments that are publicly traded on US exchanges.

#### **Prohibited Assets**

Prohibited investments include, but are not limited to the following:

1. Commodities and Futures Contracts
2. Options
3. Venture-Capital Investments
4. Interest-Only, Principal-Only, and Residual Tranche CMOs
5. Non-Regulated Off Shore Alternative Investment Funds

#### **Prohibited Transactions**

Prohibited transactions include, but are not limited to the following:

1. Short Selling
2. Margin Transactions
3. Hedging as a primary investment vehicle

#### **Asset Allocation Guidelines**

Investment management of the assets shall be in accordance with the Investment Managers' recommendation, following asset allocation sample guidelines:

1. Asset Allocation Guidelines (at market value)

Asset Class	Minimum	Maximum
Equities	40%	70%
Fixed Income	30%	60%

2. In the event that the above asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Finance Committee will instruct the investment manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible.

#### **Diversification**

The Finance Committee does not believe it is necessary or desirable that securities held represent a complete cross section of the economy. However, in order to achieve a prudent

level of portfolio diversification, the securities of any one company should not exceed 5% of the total assets, and no more than 25% of the total assets should be invested in any one industry.

#### **Guidelines for Fixed Income Investments**

1. Quality – A minimum of 80% of fixed investment holdings will be placed using investment grade bonds (BBB or better).
2. Duration – based on the academic evidence that intermediate-term bonds have exhibited similar returns with less risk than long-term bonds, the average duration of the portfolio should not exceed five years.

#### **Selection of Investment Mangers**

The Finance Committee selection of investment manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940. The Finance Committee requires that each investment manager provide in writing, acknowledgement of fiduciary responsibility to the Heritage University.

#### **Investment Manager Performance Review and Evaluation**

Quarterly performance reports will be provided to the Finance Committee and will include the following: time weighted total returns net of all commissions and management fees compared to the appropriate asset class benchmarks previously discussed, for the equity segment, the fixed income segment, and the total fund; additions and withdrawals from the account; current holdings at cost and at market; purchases and sales for the quarter; a review of the quality, risk, and other important criteria of the portfolio, and a synopsis of the manager's economic and investment outlook. The investment managers will communicate major strategy changes immediately. The Finance Committee also requires at least one face-to-face meeting with the investment manager per annum.

#### **Definitions**

1. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the assets.
2. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the assets.
3. "Securities" shall refer to the marketable investment vehicles that are defined as acceptable in this statement.
4. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for these assets is perpetual.

#### **Related Documents**

[1.c Financial Planning and Monitoring Policy](#)