

<b>Section:</b>	XII.1.3	
<b>Title:</b>	Investment Policy and Guidelines	
<b>Effective Date:</b>	September 17, 2021	
<b>Approved By:</b>	Board of Trustees	
<b>Responsible Unit:</b>	Office of the Treasurer (609) 771-2186	
<b>Related Documents:</b>	N/A	
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<u>Version</u>	<u>Date</u>	<u>Notes</u>
3.0	September 17, 2021	Revised
2.0	April 26, 2016	Revised
1.0	2004	New Policy; Initial Release

## I. INTRODUCTION

This statement of investment objectives and policies governs the investment of the College's cash balances. This policy will be subject to periodic review and modification by the Board of Trustees as is considered necessary to achieve cash management and investment objectives.

## II. DEFINITIONS

N/A

## III. POLICY

### A. GOVERNING AUTHORITY

This Investment Policy Statement (the "Policy") for the College of New Jersey (the "College") governs the investment of the College's funds. This Policy shall be subject to review and/or modification by the Board of Trustees (the "Board") on an annual basis.

The Higher Education Restructuring Act of 1994 grants the Board with oversight authority for the investment and reinvestment of the College's funds. The Board has authorized the Business and Infrastructure Committee to formalize investment guidelines and provide oversight of investment and approve investment managers.

The Business and Infrastructure Committee designates the Investment Advisor to invest the College's funds within the guidelines set forth in this Policy.

This Policy, its goals and guidelines, are considered to be an integral component of the College's enterprise risk management program.

## B. SCOPE

This Policy applies to all financial assets of the College for which the College retains direct or indirect daily control. Funds for which the College has retained outside investment management services shall also be governed by this Policy. Currently, this Policy applies to the following funds:

1. Working Capital
  - This segment is utilized for working capital expenditures with requirements of preservation of principal and liquidity on demand. These funds are needed on a day-to-day basis, and shall be invested to provide daily liquidity.
    - This segment shall make up approximately 10-30% of the College's funds with a target of 20%
2. Core Cash – 60% Equity 40% Fixed Income Multi Asset Class
  - The core cash assets are not likely to be needed within the next one to ten (1-10) years. This segment serves as a base to invest in funds with higher returns over a longer period of time.
    - This segment shall make up approximately 70-90% of the College's funds with a target of 80%.

## C. GENERAL OBJECTIVES

The College's three primary investment objectives, in order of priority and importance, are:

1. Safety: preservation of principal is the foremost objective;
2. Liquidity: investments shall be made for such periods, and in such investments, as to meet all liquidity needs of the College; and
3. Return on investment: within the constraints listed above, the Treasurer or its investment advisor(s) should invest funds in a manner that maximizes investment return, on a time weighted basis.

## D. STANDARDS OF CARE

1. Prudence: the standard of prudence to be used shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officials acting in accordance with written procedures and this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2. Ethics and Conflicts of Interest: officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the College’s funds. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the College.

## **E. AUTHORIZED FINANCIAL INSTITUTIONS**

All broker/dealers that desire to become qualified for investment transactions with the College shall meet the following:

1. Primary dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
2. Capital of at least \$25,000,000 or capital of \$5,000,000 for firms incorporated in the State of New Jersey;
3. Registered as a dealer under the Securities Exchange Act of 1934;
4. Member of the Financial Industry Regulatory Authority (FINRA);
5. Registered to sell securities in the State of New Jersey; and
6. Engaged in the business of effecting transactions in authorized investments of the Policy for at least five (5) consecutive years.

To the extent the College utilizes the services of an outside investment advisor, it shall be the responsibility of said investment advisor to maintain an approved list of brokers.

## **F. DELEGATION OF AUTHORITY & ASSIGNMENT OF RESPONSIBILITY**

The roles of the Business and Infrastructure Committee (the “Investment Committee”), the Investment Advisor and the Investment Managers, with regard to the College’s assets are delineated as follows:

### **The Investment Committee:**

The Investment Committee is responsible for overseeing the management of the Portfolio

The Investment Committee shall have responsibility for the following:

- projecting the College’s spending policy, financial needs, and communicating such needs to the Investment Advisor;
- establishing overall financial objectives, risk tolerance, investment time horizon, and setting investment policies and notifying the Investment Advisor promptly of any changes to this information;
- setting parameters for the College’s asset allocation;
- selecting a qualified Investment Advisor;
- selecting a qualified Custodian;
- establishing a process and criteria for the selection and termination of the Investment Advisor and Custodians;
- monitoring investment results regularly to assure that objectives are being met and the Investment Policy Statement guidelines are being followed;
- communicating on a structured and ongoing basis with those persons responsible for investment results;
- responsible for and empowered to exercise all rights, including proxy-voting rights.

### **The Investment Advisor:**

The Investment Advisor will be a discretionary advisor to the Investment Committee. Investment advice concerning the investment management of the Portfolio will be offered by

the Investment Advisor, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Investment Policy Statement.

The Investment Advisor may assist the Investment Committee in establishing investment policies, objectives and guidelines as is set forth in this Investment Policy Statement and as is amended from time to time. In addition, the Investment Advisor will be responsible to review Investment Managers, measure and evaluate investment performance, and other tasks as deemed appropriate. Ongoing investment decisions will be made on a discretionary basis by the Investment Advisor, within the investment and governance parameters delineated in this Investment Policy Statement.

The Investment Advisor represents that with respect to the performance of its duties under this Investment Policy Statement, it is a "fiduciary" and is registered as an investment advisor under the Federal Investment Advisers Act of 1940 (the "Advisors Act") and will perform the duties set forth hereunder consistently with the fiduciary obligations imposed under the Advisors act, and regulations promulgated thereunder and any interpretations thereof by the U.S. Securities and Exchange Commission, notwithstanding the potential conflicts of interest described below.

Specific responsibilities of the Investment Advisor include, but are not limited to:

- assisting in the development and periodic review of the Investment Policy Statement, and asset allocation guidelines;
- execution of the investment portfolio management, asset allocation, rebalancing and other day-to-day responsibilities on a discretionary basis within the guidelines of this Investment Policy Statement;
- be responsible for the ongoing due diligence required to monitor the individual Investment Managers and to provide a periodic review of Investment Manager's performance considering among other factors, historical composite investment performance, investment risk, investment process and investment personnel.

### **The Investment Managers:**

The Investment Managers have discretion to make all investment decisions for the assets placed under its jurisdiction by the Investment Advisor. The Investment Committee and the Investment Advisor desire to permit the Investment Managers flexibility to maximize investment opportunities and practice prudent management in order to conserve and protect the assets and to prevent exposure to undue risk. The Investment Committee and Investment Advisor in recognition of the diversification benefits, intend to use mutual funds, exchanged traded funds or commingled vehicles; and as such the Investment Committee and Investment Advisor understands that the guidelines outlined in this Investment Policy Statement will not be directly applied to the management of such commingled vehicles. However, the Investment Advisor will utilize mutual funds, exchange traded funds and other commingled vehicles that generally comply with the investment guidelines stated in this Investment Policy Statement.

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- Informing the Investment Advisor regarding any qualitative change to the investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment policy, etc.

- Voting proxies, if requested by the Investment Committee, on behalf of the College and communicating such voting records to the Investment Committee on a timely basis.

## G. SAFEKEEPING AND CUSTODY

To ensure that securities are deposited in an eligible financial institution prior to the release of funds, all trades of marketable securities will be executed by delivery vs. payment ("DVP").

Further, all securities will be held by an independent third-party custodian, in the name of the College, and evidenced by safekeeping receipts in the College's name. The custodian shall provide the Treasurer of the College along with its independent investment advisor(s) daily confirmation of held securities as well as a monthly transactions and holdings report.

## H. AUTHORIZED INVESTMENTS

The College's funds shall only be invested in the types of securities listed below. With the exception of the Core Cash portfolio, and unless stated below, the maximum stated maturity of any individual fixed income security shall be limited to 10 years from time of settlement. For federal agency and U.S. Government mortgage backed securities, the maximum maturity shall be defined as the weighted average life ("WAL").

WAL is a convention that estimates the expected weighted amount of time, in years, for the principal amount of an issue to be fully paid. For this sector, WAL shall be limited to 10 years from time of settlement, measured at the original settlement date, provided by Bloomberg Financial Markets. All sector and issuer limits in this Policy shall be based on book value (amortized cost) at time of purchase. All ratings requirements shall be based on ratings at time of purchase. There are no limitations on maturity or ratings within the Core Cash portfolio.

### 1. Equities (Permitted for use only in Core Cash Portfolio)

- No more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. Ownership of the shares of one company shall not exceed 2% of those outstanding. Not more than 25% of stock valued at market may be held in any one industry category. Other than these constraints, there are no quantitative guidelines suggested as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the investment manager(s).
- The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the stocks of companies from multiple regions and sectors. The emerging markets exposure as defined by Morgan Stanley Capital International Inc. ("MSCI") should be limited to 35% of the non-U.S. portion of the portfolio.
- Real estate assets will be held in pooled vehicles, primarily holding Real Estate Investment Trusts ("REITs") and servicing companies
- Inflation hedging assets held in pooled vehicles, such as the equity of companies in businesses thought to hedge inflation

### 2. Fixed Income Securities, in the form of mutual funds and individual securities of the following sectors

- United States Government Securities
  - Marketable securities issued by the U.S. Government and supported by the full faith and credit of the U. S. Treasury either by statute or an opinion of the attorney general of the United States, including Treasury Inflation Protected Securities ("TIPS").
    - Sector limit: up to 100% of the College's aggregate portfolio may be invested in this sector.

- Government Agency Securities
  - Debt securities issued by government sponsored enterprises (“GSE”) of the United States, federal agencies, and federal financing banks.
    - Sector limit: up to 100% of the College’s aggregate portfolio may be invested in this sector.
- Corporate Note and Bond Instruments
  - U.S. Agencies Mortgage Backed Securities (MBS), preferred stock, Collateralized Mortgage Obligations, Asset Backed Securities, Commercial Mortgage Backed Securities (CMBS)
  - Certificates of Deposit
    - Certificates of Deposit must be issued or endorsed by a domestic bank or a savings and loan association organized and supervised under the laws of the United States and denominated in U.S. dollars.
      - Maturity limit: the maximum maturity of any investment in this sector shall be limited to five (5) years from time of settlement.
    - Commercial Paper
      - Issued in U.S. dollar denominations.
      - Ratings: issuers must have a short-term rating of at least A-1 by Standard & Poor’s or P1 by Moody’s Investor’s Services.
      - Maturity limit: the maximum maturity of any investment in this sector shall be limited to 270 days from time of settlement.
    - Bankers’ Acceptances
      - Any such instrument must be issued by a domestic bank, including a branch office of a foreign bank which branch office is located in the United States, provided legal options are received to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank.
      - Ratings: issuers must have a short-term rating of at least A-1 by Standard & Poor’s and P1 by Moody’s Investor’s Services.
      - Maturity limit: the maximum maturity of any investment in this sector shall be limited to 180 days from time of settlement.
  - Sector limit: in aggregate, up to 50% of the College’s aggregate portfolio may be invested in corporate debt instruments.
  - Issuer limit: no single corporate issuer shall exceed 5% of the College’s portfolio.
- Municipal Debt Obligations
  - Taxable and tax-exempt securities issued by state and local governments and public authorities in the United States.
    - Sector limit: up to 50% of the College’s aggregate portfolio may be invested in this sector.
    - Issuer limit: no single issuer shall exceed 5% of the College’s portfolio.

- Repurchase Agreements
  - Collateralized only by direct obligations of the U.S. government, GNMA's, or GSE's
  - Shall only be entered into with U.S. government securities dealers, as posted by the Federal Reserve Bank of New York.
  - A master repurchase agreement or specific written repurchase agreement must govern the transaction.
  - Collateral will always be held by an independent third party. Such third party must be either (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has capital of not less than \$500 Million, or (iii) a bank approval in writing for such purpose by Bond Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee.
  - A perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities must have been created for the benefit of the Trustee
  - Trustee or an independent third party acting solely as agent for the Trustee will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation
  - The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%.
    - Sector limit: up to 25% of the College's aggregate portfolio may be invested in this sector.
    - Issuer limit: no single repurchase agreement counterparty shall exceed 15% of the College's portfolio.
    - Maturity limit: the maximum maturity of any investment in this sector shall be limited to 90 days at time of purchase.
- State of New Jersey Cash Management Fund
- Sector limit: up to 100% of the College's aggregate portfolio maybe invested in the State of New Jersey Cash ManagementFund.
- Registered Investment Companies (Money Market Funds)
  - Ratings: funds must be rated AAm by Standard & Poor's or Aa-mf by Moody's Investor's Services.
  - Sector limit: up to 25% of the College's aggregate portfolio may be invested in registered money market funds.
  - Issuer limit: no single fund in this category shall exceed 15% of the College's portfolio.

## I. PROHIBITED INVESTMENTS

The following securities and transactions are not authorized and shall not be purchased: Letter stock and other unregistered securities; private placements; futures; derivatives; commodities or other commodity contracts; puts; calls; straddles; hedging; short sales or margin transactions; uncovered and covered options; investments for the purpose of exercising control of management; and investments in companies that have filed a petition for or who have declared bankruptcy. Natural resource properties such as oil, gas or timber may not be held except by purchase of publicly traded securities. The purchase of collectibles is also prohibited.

## J. ASSET ALLOCATION GUIDELINES

The College believes that it has the greatest likelihood of achieving its investment objectives by balancing risk and return for optimal diversification. The College's assets will be invested in accordance with the targets for each asset class as follows:

Portfolio Asset Allocation Ranges		
Asset Classes	Working Capital	Core Cash
Domestic Equity	0%	20-70%
International Equity	0%	0-30%
Fixed Income	0%	10-60%
Cash Equivalent	100-100%	0-100%

### **Long-term Investment Objectives and Risk Management**

The primary investment objectives of the portfolio represent a long-term goal of maximizing the returns without exposure to undue risk, as defined herein.

The target rate of return for the Core Cash portfolio will be the spending rate of 5% plus CPI over a full market cycle.

It is understood that fluctuating rates of return are characteristic of the securities markets. The primary concern should be long-term appreciation of the assets and consistency of total return on the portfolio. Recognizing that short-term market fluctuations may cause variations in the account performance, the portfolio is expected to achieve the following objectives:

- The total return for the Core Cash fund is expected to match or exceed the performance of the appropriate benchmark index over a rolling three-year period given the appropriate level of risk. The performance of each investment manager will be evaluated against a comparable peer group and should rank above the median of that peer group over a rolling five-year period.

Understanding that a long-term positive correlation exists between performance, volatility, risk and expected returns in the securities markets, the College and Investment Advisor have established the following short term objective:

- The portfolio should be invested to minimize the probability of low negative total returns defined as a one-year fiscal year return worse than negative 10%. It is anticipated that a loss greater than this will occur no more than one out of twenty years.

### **Volatility**

The volatility of the portfolio should be reasonably close to the volatility of the benchmark.

### **Risk Management**

The College's risk management investment philosophy for its overall investment program is to prevent any unnecessary portfolio concentration risk through the broad diversification among asset classes and securities, while remaining consistent with the investment policy objectives. To manage risks in its investments, the College has created diversification standards, listed herein, in the form of credit, issuer, and sector concentration limits.

### **Rebalancing Philosophy**

Asset allocations established by the Policy represents a long-term perspective. Rapid and unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the Policy allocation ranges. When these divergences occur, the Investment Advisor shall rebalance the asset mix to its appropriate ranges and targets.

Similarly, if the cash requirement to handle liquidity needs falls to a level where near-term distributions cannot be met and no contributions are anticipated, the Investment Advisor will rebalance the fund to its appropriate ranges and targets.

When new proceeds are added, the Investment Advisor will review the current allocation and fill the liquidity allocation first and the remaining investment allocations thereafter. Portfolio allocations shall be rebalanced and reviewed on at least an annual basis.

## **K. INTERNAL CONTROLS**

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the College are protected from loss, theft, or misuse. The Treasurer shall also establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures and the accuracy of the investment valuation. The internal controls shall address the following:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Prohibition of physical delivery securities
- Clear, written delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers

## **L. PERFORMANCE STANDARDS**

On a quarterly basis, the Treasurer shall compare the College's portfolio results with selected publicly available performance indices, in terms of time-weighted total return and average duration for the period under review.

The following shall represent the overall benchmarks for the College's funds:

- Working Capital: BoA/ML 90 Day U.S. Treasury Bill Index
- Core Cash: 40% Russell 3000 Index, 20% MSCI EAFE Index, 40% Barclays U.S. Aggregate

The above benchmarks may change from time to time, based on the College's risk tolerance and investment strategy. The Business and Infrastructure Committee will meet at least annually with the Investment Advisor to review compliance with established guidelines, performance results, and any changes to the overall benchmarks.

**M. MANAGEMENT REPORTING**

The Treasurer will provide reports on the performance of the investment portfolio to the Business and Infrastructure Committee at their regularly scheduled meetings. The Business and Infrastructure Committee will report investment performance to the Board of Trustees annually.

**N. EXCEPTIONS TO THE POLICY**

Exceptions to this Investment Policy are prohibited without the prior approval of the Board of Trustees.