



# INVESTMENT POLICY STATEMENT<sup>1</sup>

## OVERVIEW

The Endowment Fund of the Phi Kappa Psi Fraternity (“Foundation”) has received charitable contributions and accumulated operating reserves that make up its short and long-term investments (“Investments”). These investments support the Foundation’s commitment to foster the development of leaders and promote academic excellence in higher education through scholarship, leadership, and educational housing grant opportunities.

The Foundation’s Board of Trustees (“Board”) has put this Investment Policy Statement (“IPS”) in place on the recommendation of its Investment Committee (“Committee”) to ensure the effective stewardship of these investments is in line with the needs of those the Foundation serves, its volunteers and donors as well as the wider community.

The IPS is a comprehensive policy that covers the stewardship of the Foundation’s Investments regardless of whether these investments represent non-endowed, quasi-endowment, or endowed funds that may be held in separate accounts or comingled per the Foundation’s policy on endowed funds. The broad intention of this policy is to ensure the following for all investable assets:

- The delegation of duties, clarification of responsibilities and effective communication among the Board and Committee along with the providers engaged by the Foundation to assist in the stewardship of these assets;
- The establishment of clear investment criteria that include objectives to be achieved over specified time horizons to support spending for well-defined purposes;
- The implementation of a consistent investment process to pursue the established investment criteria including asset allocations, investment constraints, rebalancing procedures, and performance monitoring; and
- The identification and management of the various risks inherent in investing as the Foundation seeks the investment returns needed to increase the likelihood that its various investment objectives can be achieved over the pertinent time horizons.

The investments shall be managed at all times with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims. Furthermore, the investments shall be managed in all matters putting the interests of the Foundation first while at the same time complying with applicable state and federal statutes which, from time to time, may apply.

This IPS is not a contract and the Committee will, at least annually, review the IPS and, from time to time, recommend any necessary amendments to the Board for approval.

This IPS replaces and supersedes any and all investment policy documents or the related investment aspects of other policies that pertain to the Foundation’s investment accounts individually noted in the Appendix of the IPS.

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<sup>1</sup> Adopted March 11, 2018; Revised March 17, 2019; Revised November 23, 2019; Revised November 20, 2020

## DELEGATION OF RESPONSIBILITIES

### ***Investment Committee***

The Committee was established by the Board to assist the Board in being good stewards of the Foundation's financial resources including its short and long-term investments.

While the Board is cognizant that it has ultimate responsibility for the Foundation's Investments, it has chosen to delegate to the Committee responsibility for the investment process and its management which is to include but not be limited to the following:

1. Select, engage, and evaluate one or more professional Investment Advisors or Consultants;
2. Select specific investment strategies, in consultation with professional Investment Advisors or Consultants, necessary to implement the asset allocation(s) provided for in this IPS;
3. Establish any custodial and brokerage accounts necessary to implement investment strategies;
4. Monitor investment performance against the guidelines established within this IPS and, as necessary, establish additional performance measures;
5. Report back to the Board and others regularly on the status of the Investments; and
6. Respond promptly to the inquiries of the Board regarding the status of the Investments and the structure and implementation of the investment process by which the Investments are managed.

The Committee works in consultation with the Foundation's Chief Executive Officer and Chief Financial Officer in fulfillment of these responsibilities.

### ***Investment Advisor or Consultant***

Investment Advisors or Consultants, recommended by the Committee and engaged by the Foundation have the following responsibilities along with other duties that may be assigned:

1. Assisting in the development and implementation of investment policies, objectives, and guidelines;
2. Preparing asset allocation analyses and providing ongoing recommendations for an asset allocation strategy consistent with the Foundation's investment objective(s);
3. Selecting Investment Managers;
4. Preparing and issuing quarterly performance evaluation reports in accordance with the guidelines of this IPS;
5. Attending Committee and Board meetings to present periodic evaluation reports;
6. Reviewing contracts and fees of custodians and investment managers to make recommendations as deemed appropriate to Committee regarding contracts and fees;
7. Reviewing and developing special investment strategies that complement existing asset classes or strategies to be considered by the Committee;
8. Communicating investment policies and objectives to the Investment Managers, as necessary, and monitoring their adherence to such policies;
9. Notifying the Committee of any changes in the Investment Advisors' or Consultants' key personnel or ownership;
10. Assisting the Committee in special tasks;
11. Notifying the Committee of any serious litigation or violation of securities regulations in which any Investment Manager is involved; and
12. Notifying the Committee of any important and relevant changes in portfolio managers, personnel or ownership of any Investment Managers.

All Investment Advisors or Consultants are required to acknowledge contractually their role as a fiduciary on behalf of the Foundation and accept fiduciary responsibility for their recommendations and other actions taken on the Foundation's behalf.



### **Custodian**

An Investment Advisor or Consultant may act as Custodian or recommend the Foundation engage an independent, qualified Custodian. Regardless, custodians of the Foundation's investments are expected to fulfill the following responsibilities along with other duties that may be assigned:

1. Providing timely reports detailing investment holdings and account transactions monthly to the Committee, the Foundation's Chief Executive Officer and the Investment Advisors or Consultants;
2. Establishing and maintaining accounts on behalf of the Foundation including those necessary for the Investment Advisors or Consultants to implement the investment strategies related to this IPS;
3. Providing all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of uninvested cash, etc.; and
4. Preparing additional accounting reports as requested by the Committee or the Investment Advisors or Consultants.

### **PURPOSE AND SPENDING**

The purposes for each of the Foundation's investment accounts established under this IPS are noted in the investment objective section for that account in the Appendix.

Distributions from these investment accounts are made at the discretion of the Board and, as appropriately, determined annually through the Foundation's budget process or by such restrictions as donors may make and the Foundation may accept, from time-to-time. Distributions in excess of the amounts provided for may be approved by the Board as long as such distributions do not violate restrictions which donors have imposed and the Foundation has accepted or are in violation of various statutes that may, from time-to-time, apply to the stewardship of charitable contributions that are designated as endowed by donors.

Spending for endowed, quasi-endowed, and accounts being treated like endowed funds are subject to the Foundation's Endowment Spending Rate. This rate or rates, as applicable, are established by the Board and reviewed annually on the recommendation of the Committee and are enumerated in the Foundation's general or donor specific fund policies and procedures. The rate(s) take into consideration the Foundation's budget needs and current capital market conditions and further seek to balance current spending, the Foundation's administrative fees and its investment costs with a desire to sustain this spending in inflation-adjusted dollars in the future.

Spending specific to accounts not subject to the Endowment Spending Rate is addressed in the investment objective section for that account in the Appendix.

### **INVESTMENT CONSTRAINTS**

Generally, only mutual funds and Exchange Traded Funds (ETFs) that seek to track broad market or asset classes shall be chosen. These mutual funds and ETFs include index funds along with systematic, rules-based strategies that are evidence-based and implemented in a low-cost, transparent manner. The mutual funds and ETFs may include one asset class or multiple asset classes. This approach is employed to capture the return behavior of entire asset classes and well defined segments of broad asset classes. This methodology is based upon the major tenets of Modern Portfolio Theory which states that markets are "efficient" and that investors' returns are determined principally by asset allocation decisions, not market timing or selection of specific securities.

Mutual funds and ETFs charge investment management fees which are a factor in determining their appropriateness for inclusion in the Foundation's portfolio(s). All things equal, within a particular asset-class category of mutual funds



or ETFs, the lower cost products are, generally, preferred. Manager expense is a factor that should be monitored in light of comparable funds available in the market place on an ongoing basis.

The purchase of individual, fixed income securities is allowed provided that these securities meet the constraints detailed below and can be bought and sold on the terms a typical institutional buyer would experience through third-party broker-dealers where competitive bidding reduces mark-ups to institutional levels.

The Investment Advisor or Consultant is not allowed to buy or sell securities for the Foundation from its firm's inventory or the inventory of a subsidiary entity controlled by the Investment Advisor or Consultant.

Specifically, the following constraints apply as applicable to the Foundation's holdings:

1. All investments must have a readily ascertainable market value, must be readily marketable and none of the assets can be invested in illiquid investments (as defined by greater than 2 day settlement).
2. There will be no margin buying or short selling allowed in the investments unless margin buying or short selling takes place as part of a predetermined strategy that is executed by a third-party manager inside a mutual fund or an ETF.
3. The use of derivatives such as options and futures contracts are also prohibited unless the derivatives are part of a predetermined strategy that is executed by a third-party manager inside a mutual fund or an ETF.
4. Securities lending is generally prohibited unless it is done in the inside of a mutual fund with the intent of lowering overall expenses with the proceeds of such lending.
5. Equity:
  - Equity investments can only include mutual funds and ETFs.
  - The equity portfolio shall be broadly diversified across sectors, market capitalization and geography including domestic and international markets.
  - Equity holdings in any one company may not exceed 5% of the market value of the equity portion of the portfolio.
6. Fixed Income:
  - Bond holdings within three years of maturity at the time of purchase will have a rating of A1/A+ or better by Moody's and/or Standard and Poor's.
  - Bond holdings exceeding three years to maturity will have a rating of Aa3/AA- or better at the time of purchase.
  - At no time shall a fixed income holding exceed 10 percent of the overall fixed income allocation unless it is a direct obligation of the U.S. government or a U.S. government agency. The maximum maturity of an individual bond holding shall not exceed 10 calendar years (excluding TIPS holdings).
  - Any individual bond holding that is downgraded below A1/A+ shall immediately be reviewed to determine if investment considerations warrant selling the bond.
  - Fixed income securities may include:
    - U.S. Treasury Bills, Notes and Bonds
    - U.S. Treasury Inflation-Protected Securities (TIPS)
    - U.S. Agency Notes and Bonds
    - U.S. Government Agencies
    - U.S. Dollar Denominated Fixed Income Securities of Foreign Governments
    - Taxable and Tax-Exempt Municipal Bonds
    - Certificates of Deposit (Within FDIC Limits)
    - Corporate Bonds (Mutual Funds preferred)
7. Alternatives:
  - Real Estate, domestic and international, and Commodities are permitted.
  - Other investments generally classified as "Alternatives" must be approved by the Committee on a case-by-case basis.



8. Exceptions to these constraints may be granted by the Committee in consultation with the Investment Advisor or Consultant.

### **RISK TOLERANCE**

The Foundation understands that risk is inherent in investing. Future results may be better or worse than historical market returns. The Foundation is prepared to tolerate negative performance over certain periods given that short-term fluctuations in value are, generally, considered secondary to the pursuit of long-term investment objectives.

One measure of investment risk is historical portfolio drawdown. The Committee requires the Investment Advisors or Consultants to illustrate cumulative drawdown for all appropriate recommended asset allocations.

To illustrate approximate drawdown risk, a portfolio using index data going back to January of 1972 will be constructed that is similar to each account's asset allocation. The following cumulative historical drawdown statistics for this index portfolio will be provided:

- Worst single quarter total return
- Worst single calendar year total return
- Maximum drawdown (peak to trough)
- Longest streak of consecutive negative quarters
- % of calendar quarters with negative returns

Account specific cumulative drawdown statistics are provided in the Appendix of this IPS for each investment account.

### **REBALANCING**

As addressed later in this policy, the specific asset allocations selected for each investment account play an essential role in determining investment returns. Periodically, market conditions and the performance of various asset classes within an overall asset allocation result in asset classes varying from the target weightings established in this IPS. To prevent the allocation from straying too far from the Foundation's stated goals, portfolios will be rebalanced when either of the two following events occurs:

- *Either* the weighting of an individual asset class deviates by plus or minus 25 percent relative to its recommended weighting;
- *Or* the major components within the portfolio (domestic equity, international equity, total equity, alternatives and/or total fixed income) deviate by plus or minus 5 percent in absolute terms from those components' target weightings.
- The allowable asset allocation ranges defined by these parameters (maximums and minimums) are detailed in the asset allocation tables in the Appendix.

The Investment Advisor or Consultant will effect transactions to rebalance the portfolio. Whenever possible, cash flows into or withdrawals from the portfolio shall be managed in such a manner as to keep the overall portfolio balanced within these guidelines. The asset allocation tables in the Appendix of this IPS detail these parameters by asset class.

### **INVESTMENT REPORTING AND BENCHMARKING**

The Foundation shall receive account statements for its various investment accounts directly from the custodian on a monthly basis. In addition, the Foundation shall receive performance reports on a quarterly basis from the Investment Advisors or Consultants.



The performance of specific investment accounts shall be reviewed in light of the investment objective the Committee determines is appropriate for that account. Rates of return will be calculated, after all fees, on a time-weighted basis that includes current income (interest and dividends) and capital appreciation or depreciation (realized and unrealized) adjusted for cash flow. Rates of return will typically be calculated on a current quarter, year-to-date, 1-year, 3-year, 5-year and since-inception basis and benchmarking, detailed below, shall be calculated over matching time periods.

With respect to the comparison of a particular account's performance with the benchmarks, it is important to consider that benchmark returns are not subject to advisory fees, trading costs, or investment manager expenses. This difference factors into understanding performance measurement.

### ***Portfolio Benchmark***

The rate of return for each account shall be compared to a synthetic benchmark constructed to match the account's asset allocation and the applicable size and style characteristics of that account's asset allocation. The current synthetic size and style benchmark for each account is detailed in the Asset Class Benchmarks column of the asset allocation table for that account in the Appendix. The account specific benchmark enables the Committee to monitor if the account is adhering to the current investment strategy and the associated drivers of portfolio return inherent in that strategy.

### ***Market Benchmark***

The rate of return of long-term investment accounts shall also be compared to a synthetic benchmark constructed to match a well-diversified market portfolio reflecting the major asset classes represented in the asset allocation for those accounts. A market benchmark enables the Committee to monitor the periodic variances between its investment strategy and the overall market. These variances (sometimes called tracking error) are important for the Committee to monitor given that the expected size and duration of these variances is a factor to consider in evaluating the appropriateness of a particular investment strategy. The current synthetic market benchmark is detailed for each account in the Appendix.

### ***Investment Managers' Specific Benchmarks***

In addition to benchmarking the Foundation accounts as outlined above, the individual funds and/or investment managers being utilized to implement each account's asset allocation shall be compared to the specific benchmarks chosen by the investment managers or another benchmark selected by the Committee on the recommendation of the Investment Advisors or Consultants.

## **SPECIFIC INVESTMENT ACCOUNTS**

From time-to-time, the Committee has established various short and long-term investment accounts for various purposes from the stewardship of testamentary charitable gifts to project related activities that may be temporary in nature.

Each of these accounts is governed by the general provisions of this IPS. In addition, each account has a number of specific provisions established to align the investment and oversight of the account with the specific purposes of that account and the timeframe over which those purposes are to be carried out. These specific provisions include the following and will be provided for in the Appendix to this IPS.

- Account Purpose, Investment Objective, Time Horizon and, as needed, Spending
- Asset Allocation
- Benchmarks (as applicable): Portfolio Benchmark, Market Benchmark, and Investment Manager Benchmarks



# APPENDIX A

## Listing of Investment Accounts Covered by the IPS

<b>Custodian</b>	<b>Account Number</b>	<b>Description</b>
Fidelity	XXX-XX0849	Short-term Investment Pool
Fidelity	XXX-XX0857	Long-term Investment Pool
		Mortgage Pool



# APPENDIX B: SHORT-TERM INVESTMENT POOL

## **Investment Purpose, Objective, Time Horizon and Spending**

The Foundation's Short-term Investment Pool was established by the Board to support the Foundation's mission to foster the development of leaders and promote academic excellence in higher education and to advance the Foundation's general charitable purposes, as determined by the Board, and, as applicable, to further the charitable intent of donors whose gifts have been comingled into this pool for investment purposes.

The primary investment objective for the Short-term Investment Pool is to protect against capital loss and preserve the principal value after the Foundation's administrative fees and investment costs. The investment time horizon is, typically, less than five (5) years. Spending amounts and purposes are determined by the charitable intent of the donor, typically individuals or Phi Kappa Psi Fraternity Chapters/House Corporations.

## **Asset Allocation**

The Foundation utilizes a variety of short-term, high-quality, liquid investment vehicles to steward the assets held in this pool including, though not limited to, money-market funds, Treasury bills or notes and other fixed-income instruments deemed appropriate. These vehicles are subject to the restrictions specified in the Investment Constraints section of this document.

A portion of the assets held in this investment pool may, from time-to-time, have identified future cash flow obligations. In such cases, the Foundation may invest that portion of the pool in a combination of investment vehicles such as money-market funds, bond funds and a short-duration bond ladder aligned with known cash flow obligations.

## **Benchmarks**

Given this pool's holdings will fluctuate over time as a result of inflows, outflows and varying holding periods, it is not practical to benchmark the pool as a whole.

## **Risk Tolerance**

Risk tolerance is low reflecting this pool's short-term investment horizon and primary investment objective of capital preservation.





# APPENDIX C: LONG-TERM INVESTMENT POOL

## Investment Purpose, Objective, Time Horizon and Spending

The Foundation's Long-term Investment Pool was established by the Board to support the Foundation's mission to foster the development of leaders and promote academic excellence in higher education and to advance the Foundation's general charitable purposes, as determined by the Board, and, as applicable, to further the charitable intent of donors whose gifts have been comingled into this pool for investment purposes.

The primary investment objective for the Long-term Investment Pool is to maximize total return through a diversified investment strategy to achieve a long-term, annualized rate of return that supports the Endowment Spending Rate, the Foundation's administrative fees and covers investment costs.

The Long-term Investment Pool is to be invested using a long-term, perpetual time horizon.

## Asset Allocation and Benchmarks

Asset Class	Percentage of Portfolio			Asset Class Benchmarks
<b>EQUITY</b>				
<b>Domestic Equities</b>	<b>Min</b>	<b>Target</b>	<b>Max</b>	
U.S. Market Equity	12.9%	<b>17.3%</b>	21.6%	Russell 3000 Index
U.S. Large-Cap Value	4.1%	<b>5.5%</b>	6.9%	Russell 1000 Value Index
U.S. Small-Cap Value	12.2%	<b>16.3%</b>	20.3%	Russell 2000 Value Index
<b>TOTAL DOMESTIC EQUITIES</b>	<b>34.0%</b>	<b>39.0%</b>	<b>44.0%</b>	
<b>International Equities</b>				
International Market Equity	3.0%	<b>4.0%</b>	5.0%	MSCI World ex USA Index (net div)
International Large-Cap Value	5.7%	<b>7.6%</b>	9.5%	MSCI World ex USA Value Index (net div)
International Small Value	5.9%	<b>7.9%</b>	9.9%	MSCI World ex USA Small Cap Value Index (net div)
Emerging Market Equity	4.9%	<b>6.5%</b>	8.1%	MSCI Emerging Markets Index (net div)
<b>TOTAL INTERNATIONAL EQUITIES</b>	<b>21.0%</b>	<b>26.0%</b>	<b>31.0%</b>	
<b>TOTAL EQUITY</b>	<b>60.0%</b>	<b>65.0%</b>	<b>70.0%</b>	
<b>ALTERNATIVES</b>				
Global REITs	1.9%	<b>2.5%</b>	3.1%	S&P Global REIT Index (net div.)
Market Neutral	7.5%	<b>10.0%</b>	12.5%	Merrill Lynch Three-Month Treasury Bill Index
Managed Futures	1.9%	<b>2.5%</b>	3.1%	SG Trend Index
<b>TOTAL ALTERNATIVES</b>	<b>10.0%</b>	<b>15.0%</b>	<b>20.0%</b>	
<b>FIXED INCOME</b>				
Nominal Bonds	10.0%	<b>15.0%</b>	20.0%	Barclays U.S. Agency Index
Inflation Protected Bonds	0.0%	<b>5.0%</b>	10.0%	Barclays U.S. TIPS Index 1-10 Years
<b>TOTAL FIXED INCOME</b>	<b>15.0%</b>	<b>20.0%</b>	<b>25.0%</b>	
<b>TOTAL</b>		<b>100.0%</b>		



## Market Benchmark

Asset Class	Percentage Allocation	Asset Class Benchmarks
Domestic Equity	39.0%	Russell 3000 Index
International Developed Equity	19.5%	MSCI World ex USA Index (net div)
Emerging Markets Equity	6.5%	MSCI Emerging Markets Index (net div)
Alternatives	15.0%	HFRI Asset Weighted Composite Index
Fixed Income	20.0%	Barclays U.S. Aggregate Bond Index
TOTAL	100.0%	

## Risk Tolerance

- Worst single quarter total return: **-14.8%**
- Worst single calendar year total return: **-25.8%**
- Maximum drawdown (peak to trough): **-39.7%**
- Longest streak of consecutive negative quarters: **7**
- % of calendar quarters with negative returns: **25.6%**



# APPENDIX C: MORTGAGE POOL

## **Investment Purpose, Objective, Time Horizon and Spending**

The Mortgage Pool was established by the Board to support the Foundation's mission to foster the development of leaders and promote academic excellence in higher education and to advance the Foundation's general charitable purposes, as determined by the Board.

The investment objective for the Mortgage Pool is not only to increase total return through a collateralized investment strategy but also to support living-learning communities where community good is a measurement of return.

The Foundation's Mortgage Pool holds notes receivable that represent outstanding mortgages on various house corporation owned properties made in accordance with the Chapter Fund Loan Guidelines as then in effect, which provide guidance related to the terms and conditions.

