

UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

BOARD OF TRUSTEES

INVESTMENT POLICY AND OBJECTIVES FOR THE PLANNED GIVING PROGRAM

PURPOSE

The purpose of this Investment Policy is to establish a clear understanding of the philosophy and the investment objectives for the University of Vermont's Life Income Plan portfolios (hereinafter, "Planned Giving Program"). This document will further describe the standards for the Planned Giving Program in monitoring investment performance.

The Nature of the Planned Giving Program

Planned Giving Program portfolios covered by this policy refer to a variety of different gift vehicles, including charitable remainder trusts, annuity trusts, charitable lead trusts, and gift annuities. Due to their nature, these gifts are treated differently for each type of vehicle. Listed below is a brief description of the various types of vehicles and the preferred investment approach.

Life Income Deferred Vehicles

- A. Straight (Standard) payout trusts- beneficiary payments are based on the trust payout rate applied to an annual market value. Payments can be made from income or principal and a total return investment approach can be applied.
- B. Net Income payout- beneficiary payments are based on the income (dividends and interest) earned by the portfolio up to but not exceeding the payout rates. Trusts established with a "make up provision" can use excess income in a given year to meet prior year short falls. If specified in the trust document, realized capital gains may be considered distributable income. Due to the need to generate income, an income oriented investment approach must be applied. However, an equity allocation should be maintained to offset the effect of inflation on trust principal.
- C. Annuity Trusts- beneficiary payments are fixed based on the original gift value. Payments can be made from income or principal and a total return investment approach can be applied.
- D. Pooled Income Fund - beneficiary payments are based on the income (dividends and interest) earned by the portfolio. Due to the need to generate income, an income oriented investment approach must be applied. However, an equity allocation should be maintained to offset the effect of inflation on trust principal.
- E. Gift Annuity- beneficiaries are paid fixed payments based on original gift value, and payments can be made from principal or income. A total return investment approach can be applied.

By the terms of the various planned giving agreements, upon the passing of the last beneficiary or the end of the trust term, these funds revert to the University.

STANDARD ASSET ALLOCATIONS

1. The primary investment objective for the portfolios will be to seek to provide for long-term growth of principal and income without undue exposure to risk. The portfolios shall be invested in equities, fixed income and cash equivalents based upon an acceptable asset mix which is conducive to participation in rising markets, while permitting adequate protection in falling markets. In addition, the investment mix will take into consideration factors such as the type of life income vehicle, the payout requirements, beneficiary income requirements, and overall investment policy of the University.
2. The overall asset allocation should reflect the structure listed below under normal market conditions. However, each portfolio will be reviewed and allocated based upon its individual parameters.
3. In order to seek to achieve a stated investment objectives, the portfolios may invest directly in equity, fixed income and cash investments, or indirectly by allocating assets among various bank collective trust funds.

Charitable Remainder Trusts

Investment Objectives

The investment objective for charitable remainder trusts is to manage them on a total return basis. There is an emphasis on common stocks to maximize the potential long-term return. The long-term corpus growth is intended to benefit both the income beneficiary and the University through higher annual distributions and principal value.

General use: 5%, 6% and 6.5% payout straight unitrusts and effective payout CRATs.

Asset Class	Target	Range
US Large Cap Equity	23%	10-45%
US Mid Cap Equity	5%	0-15%
US Small Cap Equity	5%	0-15%
International Developed Equity	19%	10-45%
Emerging Markets Equity	8%	0-20%
REITs	5%	0-15%
Commodities	5%	0-15%
Investment Grade Fixed Income	15%	10-30%
Non-Investment Grade Fixed Income	5%	0-15%
Non-US Fixed Income	5%	0-10%
Treasury Inflation Protected Securities	5%	0-15%
Cash	0%	0-5%

Balanced Portfolio

General use: 7% payout straight unitrusts and effective payout CRATs.

Asset Class	Target	Range
US Large Cap Equity	21%	5-35%
US Mid Cap Equity	4%	0-15%
US Small Cap Equity	4%	0-15%
International Developed Equity	16%	5-35%
Emerging Markets Equity	7%	0-15%
REITs	4%	0-15%
Commodities	4%	0-15%
Investment Grade Fixed Income	19%	10-35%
Non-Investment Grade Fixed Income	7%	0-15%
Non-US Fixed Income	7%	0-10%
Treasury Inflation Protected Securities	7%	0-15%
Cash	0%	0-5%

Income Portfolio

General use: 8+ payout straight unitrusts and effective payout CRATs.

Asset Class	Target	Range
US Large Cap Equity	16%	5-35%
US Mid Cap Equity	4%	0-15%
US Small Cap Equity	4%	0-15%
International Developed/Equity	14%	5-35%
Emerging Markets Equity	6%	0-15%
REITs	3%	0-15%
Commodities	3%	0-15%
Investment Grade Fixed Income	26%	20-40%
Non-Investment Grade Fixed Income	8%	0-15%
Non-US Fixed Income	8%	0-10%
Treasury Inflation Protected Securities	8%	0-15%
Cash	0%	0-5%

Net Income Unitrusts With and Without Makeup

Investment Objective

The investment objective for net income unitrusts with and without makeup provisions seeks to establish a portfolio target yield that balances the needs of the income beneficiary and University. There should be a minimum equity weighting between 20% to 30% to provide

sufficient principal growth to offset inflation. Income distributions that meet the income beneficiary's reasonable expectations while achieving long-term corpus growth will benefit both the income beneficiary and the University. Since income unitrusts only make distributions from interest and dividends, each net income unitrust will generally have a unique asset allocation to meet the specific needs of the trust.

Charitable Gift Annuity

Investment Objective

The investment objective for gift annuity fund is to seek to manage the portfolio for total return to potentially provide a greater remainder value at the termination of the contract.

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>
US Large Cap Equity	23%	10-45%
US Mid Cap Equity	5%	0-15%
US Small Cap Equity	5%	0-15%
International Developed/Equity	19%	10-45%
Emerging Markets Equity	8%	0-20%
REITs	5%	0-15%
Commodities	5%	0-15%
Investment Grade Fixed Income	15%	10-30%
Non-Investment Grade Fixed Income	5%	0-15%
Non-US Fixed Income	5%	0-10%
Treasury Inflation Protected Securities	5%	0-15%
Cash	0%	0-5%

Pooled Income Fund

Investment Objective

The investment objectives for pooled income funds is to manage the portfolio for current income. A portion of the assets should be invested into equities to provide some minimal principal growth.

Asset Class	Target	Range
Income Allocation:	100%	
Equity	46%	0-70%
Fixed Income	30%	0-70%
High Yield	10%	0-50%
Hybrids	8%	0-30%
Global Real Estate	6%	0-25%
Cash	0%	0-50%

MONITORING ASSET ALLOCATION AND REBALANCING

The portfolios should be reviewed at least quarterly to confirm the current asset allocation is in the tolerance range of its strategic allocation. Intra-quarterly rebalancing may be necessary when any asset class is outside of its respective range by +/- 3%.

The portfolios should be reviewed at least annually to update any changes in the investment objectives of the individual trusts.

CASH BALANCES

The standard cash balance policy for the portfolios is to maintain a balance of approximately 2% for quarterly payments and fees. There should be higher cash balances for portfolios that have higher quarterly distributions or donor sensitivity.

PERFORMANCE MEASUREMENT GUIDELINES

The life income portfolios will have various asset allocations to potentially meet their respective objectives. Therefore, the primary measurement of performance will be benchmark relative returns.

The following are the benchmarks to be used for performance measurement:

<u>Asset Class</u>	<u>Benchmark</u>
Domestic Large Cap Equity	S & P 500 Index
Domestic Mid Cap Equity	S & P 400 Index
Domestic Small Cap Equity	Russell 2000 Index
Developed Markets International Equity	MSCI EAFE Index
Emerging Markets Equity	MSCI Emerging Markets Free Index
Investment Grade Fixed Income	Barclays Aggregate Bond Index or Barclays intermediate Gov/Credit
Non-Investment Grade Fixed Income	Barclays US High Yield 2% Issuer
Cap Index Emerging Fixed Income	JP Morgan EMBI Global
REITS	Dow Jones Select US Index and/or Dow Jones Global ex-US Select Index
Commodities	Bloomberg Commodity Index
TIPS	Barclays TIPS Index

Each investment objective will be measured against the benchmark listed above, and each portfolio will be measured against a blended benchmark, weighted based on the target asset allocation of each portfolio.

INVESTMENT MANAGEMENT RESPONSIBILITY AND STRUCTURE

The management and investment responsibility resides with the Vice President for Finance and Treasurer.

Investment managers may be engaged to invest University assets consistent with this Policy. Subject to this Policy and a written agreement between the University and the investment manager, the investment manager will be given discretion to select individual securities and to make adjustments to the structure of the portfolio.

Administration and Reporting

As delegated by the Board of Trustees through its resolutions, specified University officials, including the Treasurer, are authorized to open accounts with banks, investment firms, or financial institutions, and/or to execute purchases and sales, in order to implement this Policy and Investment Objectives for the Planned Giving Program.

Approved by the Executive Committee: September 17, 2018