



HAVERFORD COLLEGE

INVESTMENT POLICY STATEMENT

I. INTRODUCTION

This Statement is issued by the Investment Committee (the “Committee”) of the Board of Managers of Haverford College to establish the investment objectives and policies for the management of the Endowment investment assets (the “Endowment” or “Portfolio”) of Haverford College (the “College”).

II. KEY UNDERSTANDINGS

The following statement is provided to the Board of Managers of the College to describe the means by which the Committee intends to accomplish the investment objectives, and is based on several key understandings:

- Haverford College was founded as a perpetual institution;
- The College will manage its current operations so that it is in financial equilibrium;
- Donors have supported the Endowment with the intent that both present and future generations should benefit from its resources.

III. INVESTMENT OBJECTIVES

The Endowment should be managed with a total return orientation and the Committee will endeavor to balance the dual objectives of preserving the purchasing power of assets for future generations and maintaining sufficient operating liquidity and income to support the near-term operating needs of the College.

To ensure that the near-term operating needs of the College are met, a portion of the Endowment should normally be invested with a perspective that incorporates preservation of principal and liquidity.

To preserve the long-term purchasing power of the endowment for future generations, a significant portion of the endowment should be managed with a long-term perspective. In an effort to achieve real growth in Endowment assets after adjusting for the effects of distributions, inflation, expenses and gifts, it will be necessary from time to time to endure periods of negative investment results, which could entail the loss of capital. Nevertheless, the Committee will always endeavor to avoid permanent impairment of capital.

Finally, while acknowledging the critical importance for our Investment Policy to achieve strong risk-adjusted investment returns from the Portfolio over the long-term, the Committee also recognizes that there are two additional factors that have important effects on the long-term growth rate of the Endowment: endowment spending and the level of philanthropic support for the College. Consequently, Haverford should avoid disproportionate reliance upon Investment Policy and instead should consider Investment Policy as one of three policy tools—along with spending policy and development policy—which will directly impact the long-term growth rate of the Endowment.



IV. INVESTMENT PRINCIPLES

The Board of Managers of Haverford College has delegated the responsibility for oversight of the Endowment to the Investment Committee. In managing the Endowment portfolio, the Committee has adopted the following guiding principles:

A. Long-Term Investment Horizon

Haverford was founded as a perpetual institution. The Committee believes that the long-term investment horizon afforded by a perpetual institution provides the investment portfolio with a competitive advantage compared with market participants who are focused on short-term performance. The perpetual time horizon of the Endowment enables the Committee to look beyond short-term periods of negative performance and temporary impairment of capital in the pursuit of long-term capital growth. Consequently, the Committee will refrain from making market-timing decisions in an attempt to mitigate short-term market volatility.

B. Diversification

In an attempt to mitigate the impact that any individual holding or single class of investments will have on the Portfolio's aggregate results, investments should be diversified by asset class (for example, equities, bonds, alternative assets and real assets), by geography, by investment manager and within asset classes (by industry sector, investment quality and investment concentration). In addition to avoiding excessive concentration, the asset allocation mix should be constructed and managed with explicit consideration for the correlation among asset classes and individual assets. The asset categories and their primary roles in the portfolio are described as follows:

Growth Assets - To achieve real growth in Endowment assets after adjusting for the effects of distributions, inflation, expenses and gifts, a significant portion of the portfolio needs to be invested in growth-oriented, equity-like assets. This grouping generally is expected to include public and private equity and equity-like assets and investments expected to have a long-term beta to the MSCI ACWI equal to or in excess of 0.7.

Low Volatility and Liquidity - To ensure the near term operating needs of the College and endowment liabilities are met, a portion of the endowment should be invested in high quality, low volatility, liquid assets. This grouping generally is expected to include government bonds, high quality credit, and cash.

Real Estate - Real estate is viewed as an inefficient asset class with attractive long-term risk/return characteristics. Real estate provides opportunity for active management to generate alpha, with lower long-term correlation to equity, and may provide inflation protection as a secondary benefit.

Hybrid and Diversifying Assets – This category provides for additional diversification, opportunistic investments, and investments with attractive risk/return profiles. This grouping generally is expected to include diversifying hedge funds, systematic strategies, lower quality credit, and other opportunistic investments, either public or private. Assets in this category are expected to have a long-term beta to the MSCI ACWI less than 0.7.

C. Asset Allocation Policy Targets and Ranges

Asset allocation mix has substantial impact on a portfolio's long-term return. Therefore, the Committee should focus most of its attention on broader long-term asset allocation decisions, while



maintaining skepticism about the ability to time short-term market movements. Day-to-day security selection will be implemented through external investment managers. Where possible, preference should be given to low cost, liquid, transparent strategies that track the performance of the broad asset class, such as passive, index-replicating strategies. The active vs. passive decision should be further evaluated on a case-by-case basis for specific strategies that have been subjected to a robust due diligence process, with the understanding that there may be some give-up in cost, liquidity and transparency

Endowment asset allocation “Policy Targets and Ranges” should be established in a manner consistent with the foregoing objectives. The policy should be formally reassessed at least once every three years (current policy targets and ranges are included in Appendix A).

In the interim, changes to the asset allocation mix should be gradual, avoiding abrupt changes in allocations and strategy. The Committee should typically adopt an incremental approach to realigning the Endowment with its long-term target asset allocation.

D. Rebalancing

Rebalancing strategies provide a systematic way to keep asset class weights near long-term strategic targets and serve as the primary means of maintaining the desired long-term risk and return characteristics of the Portfolio. The College’s long-term time horizon enables the endowment to have significant exposure to equity assets and capture their long-term expected returns, which tend to be above other asset classes. Equity assets are also subject to higher volatility than other asset classes, and thus, equity exposure is the primary lever for adjusting portfolio risk levels, while asset class policy ranges and targets are second-order guidelines for portfolio allocations.

The rebalancing policy and process should:

1. Provide a systematic and easily repeatable process for maintaining the desired equity beta exposure of the portfolio.
2. Prevent the portfolio from moving too far from the target beta, while also avoiding excessive rebalancing.
3. Provide a streamlined approach to quickly implement portfolio rebalancing.

Certain asset classes are not easily rebalanced due to their illiquid and/or volatile nature. Consequently, for illiquid asset classes, such as non-marketable alternatives and real assets, special consideration should be given to the size of total commitments, both funded and unfunded, in an effort to maintain portfolio equity beta within the policy range. , With reference to the asset allocation policy, the Committee recognizes that the Portfolio’s exposures to these illiquid asset classes may remain outside of their asset allocation target ranges longer than other asset classes as a result of contractual unfunded commitments. In addition, the Committee recognizes that the equity beta policy range and asset allocation policy ranges may conflict at times as a result of illiquid investments. In these unique circumstances, it is expected that the equity beta policy will supersede the asset allocation policy.

Rebalancing implementation should also give consideration to specific tactical allocation views expressed by the Committee. Such tactical views may be driven by relative valuation of asset classes and result in specific asset classes being held above or below their strategic targets. However, the Committee will, to the best of its ability and circumstances permitting, keep projected exposure to



equity beta and exposure to each asset class within the policy ranges that have been established in Appendix A, while recognizing that extreme market movements may cause unintentional, temporary movement of the portfolio outside of policy ranges.

In order to minimize the transaction costs associated with rebalancing, cash inflows and outflows should be managed with an emphasis on achieving rebalancing objectives.

The full rebalancing policy is outlined in the separate document, Haverford College Endowment Rebalancing Policy.

E. Performance Benchmarking

While the Committee may examine the performance of individual investment managers in the Portfolio relative to specific market benchmarks, the ultimate success of Investment Policy should be measured by how well the Endowment's investment objectives are met rather than by short-term investment performance relative to market benchmarks or peer group returns. The stated objective of the Endowment is to balance the operational needs of the College for current generations with long-term growth in purchasing power of the Endowment to support future generations. In seeking to achieve these dual goals discussed in the Investment Objectives, the performance benchmark for the Portfolio should be a positive real rate of return in Endowment assets after adjusting for the effects of endowment spending, inflation, expenses and gifts. The asset allocation policy targets included in Appendix A represent the portfolio that the Committee believes will achieve this rate of return.

F. Risk Assessment and Management

To ensure that the asset allocation policy and implementation process result in an investment portfolio that is compatible with the risk profile of the College, the Committee should adopt prudent risk parameters, assessment methods and management processes. Risk management practices should be holistic, consider Endowment assets and liabilities, and be regularly measured and analyzed. The following risk factors should be considered and examined: (1) volatility¹, (2) shortfall, (3) drawdown, (4) liquidity, (5) implicit and explicit leverage (6) inflation, (7) deflation, (8) currency/country, (9) interest rate sensitivity, (10) concentration, (11) credit exposure, (12) correlation and (13) asset-liability mismatches.

Risk exposures should be evaluated on a portfolio level and factored into the asset allocation, rebalancing and manager selection processes. Endowment risk level should be managed primarily through disciplined rebalancing and asset allocation policy adjustments, while excess risks should be managed through rigorous asset allocation implementation, diversification and robust due diligence. While the Investment Committee will evaluate these risks in developing and implementing the asset allocation policy, the Committee acknowledges that it is impossible to eliminate these risks. In fact, the Committee recognizes that assuming risk is necessary in order to achieve the investment return objectives desired.

G. Liquidity Assessment

Given the income needs of the College from the Endowment, the liquidity risks of the Portfolio should be managed to maintain a minimum level of liquidity to meet the ongoing income needs of the College. Additionally, the Committee will seek to maximize the liquidity profile of portfolio assets

¹ Volatility in asset prices should be evaluated based on multiple measures and may include standard deviation, downside deviation, Value-At-Risk, Conditional Value-At-Risk, and/or other quantitative or qualitative factors.



for a given risk-return profile. Investments (measured as if commitments are fully funded) in illiquid assets should be evaluated in the context of the overall liquidity profile of the portfolio and the expected returns from such illiquid assets should compensate the Endowment with liquidity premiums sufficient to justify their additional liquidity risks.

H. Spending Policy

Endowment distributions should be geared to provide a relatively stable stream of income to current and future operating budgets of the College. Working in conjunction with the Finance Committee of the Board of Managers, the Committee will endeavor to formulate the spending policy in a manner that does not cause undue variability in Endowment distributions. To achieve this goal, the pattern of payouts should be held constant or move in a countercyclical direction to the Endowment's investment results. Specifically, the spending rate should be expected to be held constant or decline in years of strong investment performance and held constant or increase in years of poor investment performance.

The Investment Committee will inform the Finance Committee of the Board of Managers if the spending rate moves to a level that is deemed to be unsustainable, considering the expected return on the Endowment portfolio. Historical experience suggests that providing stable income to address the needs of current generations and growing Endowment purchasing power to address the needs of future generations typically entails annual spending rates between 3.5% and 5.0% of total Endowment value. The Committee recognizes that special circumstances may dictate that spending move outside of this range on a temporary basis.

I. Conflicts of Interest

The Committee should always seek to make investment decisions that are free of any conflicts of interest. This statement is not meant to exclude the possibility of dealings with related parties. However, any investment under consideration in which pre-existing or contemplated business relationships or financial dealings with College trustees or other interested parties may or will exist, must be fully disclosed to the Committee and such proposed investment must be subject to the same due diligence process to which a similar investment would otherwise be subject. Additionally, the due diligence process should consider whether a substantially similar strategy is available in the market without the possibility of a conflict of interest.

Members of the Committee and Investment Office staff shall disclose to the Committee in a timely manner any relevant facts or circumstances that might give rise to a conflict of interest, or even the appearance of a conflict of interest. In the event of a real or apparent conflict of interest, or with respect to matters that come before the Investment Committee, the Committee member must recuse himself or herself from any discussion and decision-making on the matter.

V. GOVERNANCE STRUCTURE AND DELEGATION OF RESPONSIBILITIES

The Board of Managers, members of the Investment Committee, the Investment Office staff and outside consultants all function as fiduciaries of the Endowment and must consider their responsibilities relative to the management of the Endowment. The nature of the responsibilities of each party involved in Endowment management is outlined below:

- A. **Board of Managers:** The Board of Managers of Haverford College, through its Nominations and Governance Committee, approves the membership of the Investment Committee. The Board maintains oversight of the Endowment by receiving regular reports from the Investment



Committee during the normal course of Board Meetings, or as specifically requested by the Board. The Board also approves this Statement of Investment Policies and Objectives for the Haverford Endowment. Any revisions to this Policy Statement made by the Investment Committee will be submitted to the Board for approval at the next Board meeting.

- B. **Investment Committee:** The Investment Committee maintains broad oversight over all Endowment activity, including formulation of objectives and policy, and ongoing management of the Portfolio, and will use its best efforts to ensure adherence to the Investment Policy Statement. The Committee operates in conjunction with Haverford Investment Office staff and the Vice President of Finance and, when necessary, will draw upon the expertise of the broader Haverford community and external consultants. The Investment Committee will also seek to collaborate with the Finance Committee on matters pertaining to both the Endowment and the College's financial position. The Committee typically meets during regularly scheduled meetings of the Board of Managers and, when warranted, will also conduct interim meetings. The Investment Committee will spend the majority of its time developing Endowment governance, investment policy and asset class strategy as well as reviewing and evaluating the Endowment's investment results. The Committee oversees all other elements of the Endowment and may choose to delegate responsibility for policy and strategy implementation based on the most effective use of Haverford's resources. Decision-making authority rests solely in the hands of the Committee unless that authority is expressly delegated to another party.
- C. **Sub-committees:** Sub-committees may be established to develop recommendations on a specific investment strategy or monitor/advise on specific asset classes, strategies and managers. A Sub-committee will generally be comprised of one or more members of the Investment Committee (typically the Committee Chair(s) and/or asset class specialist(s)), members of the Investment Office staff, and/or other experts deemed appropriate by the Investment Committee. Sub-committees may be formed or dissolved by the Committee as needed to carry out specific tasks, such as asset class strategy recommendations or investment manager due diligence.
- D. **Investment Office and Staff:** The Investment Office staff will focus on day-to-day oversight of the endowment, the implementation of investment policy, and investment manager due diligence and monitoring. Investment Office staff may provide recommendations and guidance to the Investment Committee on the implementation of investment strategy, manage the due diligence process for prospective investment managers and coordinate interactions with the Finance Committee when appropriate. Investment Office staff will generally have direct responsibility for monitoring, evaluating and reporting on the Endowment and current holdings, and will advise the Committee on any other matters expressly delegated to the staff.
- E. **Investment Managers:** Investment managers will be delegated by the Committee to carry out all aspects of portfolio management within the investment policies approved by the Committee. Investment managers will be expected to adhere to their specified investment policies and provide pertinent information such as performance reports and Form ADV on a timely basis.
- F. **Investment Consultants:** External investment consultants will be used largely on an as-needed basis to provide specific expertise on broad issues such as governance, investment policy, due diligence support or performance reporting. Consultants will generally be retained to provide unique research or insight that would be very costly or challenging to garner internally.



VI. MISCELLANEOUS PROVISIONS

A. Sustainability and Diversity Considerations

The Endowment is invested with a long-term perspective with a diversified portfolio of investment managers to provide a perpetual source of support to the College. The Investment Committee, Investment Staff and our investment managers have a fiduciary duty to ensure the long-term health of the Endowment by seeking to maximize investment return for a given level of risk. Current and prospective investment managers are evaluated across a broad range of factors to ensure that investment objectives are met.

The inclusion of sustainability and diversity factors as part of the criteria on which investment managers are evaluated provides a means to align the College's values with fiduciary responsibility. The College believes that:

- Sustainability factors can introduce long-term risks to the portfolio, such as those posed by climate change.
- Diversity in background, experience, and perspective expands creative insight and mitigates risk in group analysis and decision-making.

Thus, through the investment research process, the extent to which investment managers consider sustainability and diversity factors in their investment processes should be understood and considered as part of the criteria on which Haverford evaluates investment managers. All else being equal, investment managers who thoughtfully consider sustainability and diversity factors in their investment process should be favored over those who ignore such factors.

The Board of Managers and the Investment Committee recognize that inclusion of sustainability and diversity factors in the investment process is not intended to result in the exclusion of specific investments on the basis of these factors alone.

B. Investment Restrictions

The Endowment generally invests in commingled funds and does not have the capability to direct the specific underlying holdings of such funds. The Board of Managers may from time to time suggest inclusion or exclusion of securities of certain companies in the Endowment, but recognizes that it is generally not possible to implement specific restrictions in a commingled portfolio. In a separately managed account, in which the College would own securities directly, the Investment Committee will endeavor to implement these suggestions, to the extent that such suggestions are consistent with the Committee's fiduciary responsibilities in managing the Portfolio. In such cases, guidelines about prohibited investments will be provided to each portfolio manager. As of the latest update of this Investment Policy Statement, the Endowment maintains no direct holdings of securities and is invested entirely in commingled funds.

C. Guidelines for Transactions

Under most circumstances, the Committee will seek to enter into direct transactions on the basis of best execution. The Committee acknowledges that under certain circumstances, other factors may affect the desire to seek best execution.



D. Proxy Voting

All proxies are to be voted by the manager, except in the case of any direct investments in publicly-traded companies held by the College. Such direct holdings may exist to enable the Haverford community to participate in shareholder resolutions and proxy voting.

E. Sales of Gifted Securities and Distributions In-Kind

All marketable securities received from donors or through in-kind distributions from partnerships will be sold as soon as practical and the cash allocated as part of regular rebalancing of the portfolio.

VII. MONITORING OF OBJECTIVES AND RESULTS

All objectives and policies are in effect until modified by the Investment Committee. They will be reviewed at least annually at a meeting of the Committee for their continued appropriateness.

The Endowment and each individually managed portfolio will be monitored for consistency of investment philosophy, return relative to objectives and expectations, and investment risk. Portfolios will be reviewed by the Committee on a quarterly basis, but performance results will be evaluated over longer periods. While frequent changes in asset allocation, policies and investment managers will be avoided, the Committee can and will enact changes as circumstances dictate.

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Sponsor: Michael Casel, Chief Investment Officer
Contact the Investment Office with any questions



APPENDIX A
ASSET ALLOCATION POLICY TARGETS AND REBALANCING RANGES

<u>Asset Category</u>	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Growth Assets	66%	62%	70%
Diversifying and Hybrid Assets	18%	13%	23%
Real Estate	6%	4%	8%
Low Volatility and Liquidity	10%	7%	13%
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Projected Equity Beta	0.80	0.76	0.84