



**WELLESLEY COLLEGE INVESTMENT COMMITTEE
INVESTMENT POLICY STATEMENT**

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INVESTMENT POLICY STATEMENT

I. Introduction

Wellesley College is fortunate to have a significant endowment to support the pursuit of its educational mission today and over the long-term. The endowment plays a critical role in supporting the operation of Wellesley College, as endowment spending accounts for approximately 40% of the College's net revenues. The ongoing financial sustainability of the College relies on maintaining the purchasing power of the endowment.

Given the dual financial objectives of providing steady, predictable support to the operating budget and maintaining purchasing power, the endowment must be managed for long-term growth, but with constant attention to risk control. The balance of growth and risk in the investment portfolio is monitored and assessed by the Investment Committee on behalf of the Trustees. The endowment spending policy, which the Investment Committee and the Campus and Finance Committee jointly recommend to the board, is based on the same objectives.

II. Investment Objectives

The Wellesley College long-term investment pool is invested with the following objectives:

- A. Preserve the purchasing power of the endowment over the long-term so that it can provide ongoing support of the operating budget in real terms. To meet this objective, the portfolio must generate a real return over the long-term that covers the endowment distribution, investment management fees, investment office expenses, and taxes.
- B. Manage risk in all its forms through rigorous analysis and prudent actions.

III. Investment Philosophy

The College's portfolio strategy is based on the following beliefs and practices:

- A. Build a well-diversified portfolio
 - a. Asset allocation is a key driver of return
 - b. Diversify across asset classes, geographies and strategies
 - c. Size positions to reflect conviction and liquidity characteristics
 - d. Combine uncorrelated strategies
- B. Invest for the long-term
 - a. Seek to invest in strategies that benefit from patient capital
 - b. Accept illiquidity if justified by higher return
 - c. Avoid short-term speculative activity

- C. Generating alpha, net of fees is difficult. Critical manager and strategy characteristics include:
 - a. High ethical standards;
 - b. Strategies that take advantage of market inefficiencies;
 - c. A sustainable edge over competitors;
 - d. A focus on high quality assets or assets priced at a discount to fair value;
 - e. Strategies that benefit from patience;
 - f. A stable capital base and limited partners that share our approach; and,
 - g. Limits on strategy and firm AUM that reflect the capacity of a team and strategy to generate alpha, net of fees.
- D. It is critical to understand and gauge the College's appetite for many types of risk.
 - a. The Endowment Spending Policy modulates endowment support, so the College is able to withstand some variability in returns.
 - b. With a long-term investment horizon, the College is able to take on some illiquidity risk.
 - c. The opportunity cost of holding cash can be high, but it is important to maintain adequate liquidity to meet the endowment draw and capital calls.
 - d. Portfolio flexibility is valued. The College seeks to maintain sufficient liquidity across the portfolio to meet cash needs without realizing losses that may be only temporary and capitalizing on opportunistic investments.
 - e. A globally diversified portfolio will have geopolitical risks that need to be monitored and understood.
 - f. Although the use of direct leverage is prohibited, the portfolio is exposed to levered strategies in several asset classes. The risk posed by these exposures need to be understood and monitored.
 - g. Understanding and managing emerging risks such as cybersecurity and climate change is important.
 - h. With a complex, multi-asset portfolio it is critical to maintain outstanding operations.

IV. Investment Policies

A. Policy Portfolio

The Policy Portfolio is set by the Investment Committee, on the recommendation of the Investment Office. The Policy Portfolio reflects the investment objectives and philosophy stated above. The Policy Portfolio is reviewed annually and adjusted as needed but is considered a long-term plan and so not altered lightly (Attachment A). The Investment Office has latitude to allocate in a range of approximately 5-10% around the Policy Portfolio allocation.

B. Benchmarks

Each asset class in the Policy Portfolio is assigned a benchmark, which reflects the neutral (index) market return associated with that asset class. Benchmarks are reviewed and approved annually by the Investment Committee. The Policy Portfolio benchmark return is equal to the weighted average returns of the asset class benchmarks (Attachment A).

C. Spending

Spending from the endowment is governed by the College's Endowment Spending Policy. The Campus and Finance and Investment Committees share responsibility for the regular review of the policy to ensure that it continues to provide appropriate support to the College's current and future operations. The two Committees jointly recommend the policy to the Board of Trustees.

D. Securities

Listed securities may be held directly in the portfolio under two circumstances. The Investment Office may make long or short investments in ETFs to adjust market exposure. In addition, securities distributed by private equity managers may be held until they can be sold.

E. Leverage

The use of leverage at the portfolio level is prohibited.

F. Derivatives

The Investment Office may from time to time enter into derivatives arrangements utilizing the services of a retained derivatives manager. In cases when futures are employed to synthetically replicate market exposures, positions will be 100% collateralized by cash, cash equivalents or a portfolio exposure. Required margin amounts will be held in an account at the executing brokerage firm and any difference in notional market exposure and margin deposit will be held in a dedicated account at Wellesley's custodian bank and invested in a short-term cash vehicle. The use of futures contracts in the Wellesley endowment will not create leveraged market exposure on the endowment as a whole.

G. Hedging

With the approval of the Subcommittee on Portfolio Hedging, the Investment Office may from time to time enter into portfolio level hedges intended to address macro or portfolio level risks. Such hedges are expected to be episodic and tactical in nature and considered as a form of insurance against market developments. The Investment Office will utilize the services of a retained manager to implement such hedges. The Investment Office will work with the retained manager to negotiate and implement agreements with counterparties as needed.

H. Borrowing and Operations Settlements

The timing of cash flows in and out of the investment pool may occasionally create situations in which the Investment Office would prefer to defer payment of the monthly settlement with Finance. In circumstances in which a deferral is deemed prudent, Investment Office staff will work with the Controller's Office on the payment deferral and cash movement strategy. In some cases, the endowment may pay a market rate of interest to the operating cash account at time of settlement.

I. Investments in Fossil Fuels

Climate change poses a serious threat to humankind and hence to the College. The burning of fossil fuels is a primary cause of climate change. Investments with narrow focus on fossil fuels and lengthy investment horizons pose undue risk to investment returns. For that reason: 1) investments with managers whose primary investment focus is on companies in the fossil fuels industry are prohibited; 2) new commitments to private equity funds that focus on fossil fuel investments are prohibited; and, 3) to the extent practicable and consistent with fiduciary duty, the Investment Office should seek to divest existing partnership interests in private equity oil and gas funds.

V. **Investment Committee Responsibilities**

The Investment Committee of Wellesley College is a committee of the Board of Trustees charged with setting the policies related to the endowment and other College financial assets and oversight of the Investment Office's management of those assets. Responsibilities of the Committee include:

Investment Related

1. Annually reviews and approves the Investment Policy Statement;
2. Sets long-term asset allocation targets through establishment of the Policy Portfolio;
3. Reviews and approves asset class benchmarks;
4. Reviews investment performance of the investment pool on, at least, a quarterly basis;
5. Provides guidance to the Investment Office on the types and level of risks that are appropriate in pursuit of the investment pools objectives;
6. Reviews new commitments to investment partnerships and the selection and termination of investment managers made by the Investment Office;
7. Through the Portfolio Hedging Committee approves any hedging activity;
8. Monitors hedging activity made by the Investment Office;
9. Approves the terms of the Faculty Mortgage Program and its maximum size;
10. Through the Subcommittee on Investment Responsibility ensures that the College votes its proxies in accordance with Wellesley College's ethical standards;

Investment Office Oversight

11. Assesses the performance of the Investment Office, including an annual performance review of the CIO;
12. Through the Subcommittee on Budget and Compensation oversees the budget and the incentive compensation plan of the Investment Office;

Governance

13. Monitors the management of other financial assets of the College, including planned giving assets, the defined benefit plan, and faculty mortgages.
14. Reports to the Trustees regarding investment performance, significant risks and the performance of the Investment Office and the CIO; and,
15. Along with the Campus and Finance Committee, reviews and recommends College's Endowment Spending Policy.

Committee members are expected to comply with the Board's Conflict of Interest Policy, which the Clerk of the Board administers.

VI. Investment Office Responsibilities

The Investment Office staff is employed by the College to manage the Long-term Investment Pool. Responsibilities of the Office include:

Investment Related

1. Recommends changes to the Investment Policy Statement as needed;
2. Annually assesses the Policy Portfolio and recommends changes to the Investment Committee;
3. Recommends benchmarks for each asset class and tracks the performance of the benchmarks;
4. Monitors asset allocation and rebalances the portfolio within allowable ranges;
5. Assesses the performance and risk of existing and potential investment management firms;
6. Makes commitments to private partnerships and selects, hires and terminates investment managers, sharing a memo outlining the rationale for the action with the Investment Committee;
7. Monitors and assesses the dynamics and developments of markets and investment strategies and vehicles;
8. Monitors and reports the investment performance of the Long-term Investment Pool portfolio to the Investment Committee;
9. Reports fiscal year results to the Board of Trustees;

Risk Management

10. Monitors, analyzes and manages investment and operational risks in line with guidance provided by the Investment Committee;
11. Recommends portfolio hedges to the Subcommittee on Portfolio Hedging as necessary;
12. Reports all hedging activity taken by the Investment Office;
13. Maintains high-quality operations and controls to safeguard the College's assets;
14. Minimizes risk through a rigorous process for identifying, selecting and monitoring vendor relationships;

Investment Office Management

15. Prepares materials for and coordinates scheduling of Investment Committee meetings;
16. The CIO hires appropriate staff to accomplish objectives, provides staff with feedback and professional growth opportunities and annual performance reviews;
17. Develops and proposes the annual budget for the Investment Office to the Subcommittee on Budget and Compensation;
18. Proposes changes to the Incentive Compensation program as needed;

Other Responsibilities

19. Executes proxy voting with direction from the Subcommittee on Investment Responsibility;
20. Works with other College departments on issues related to the endowment and financial health of Wellesley College, faculty mortgage, cash management, spending, retirement plans, and planned giving;
21. Partners with Finance to implement the Faculty Mortgage Program;
22. Works with Finance and outside auditors on the College's annual financial audit;
23. Works with Finance and outside tax accountants to determine tax liabilities related to the endowment;

24. Works with Finance on debt policy and issuance; and,
25. Reports investment portfolio performance to outside, higher-education research groups only as appropriate (e.g., Cambridge Associates, NACUBO) after the Board of Trustees has received such information.

All Investment Office employees are required to comply with the Board's Conflict of Interest Policy, which the Clerk of the Board administers.