

Fayetteville Area Health Education Foundation, Inc. Southern Regional Area Health Education Center Investment Policy Statement September 2012 *(revised 01/26/2018)*

I. Mission

To train advanced health science students, provide primary care services to patients and to offer continuing education to health care professionals in our region.

II. Purpose of this Policy Statement

This policy statement outlines the goals and investment objectives for The Fayetteville Area Health Education Foundation, Inc. (these assets referred to herein as “The Foundation”). Since this document is intended to provide guidelines for managing the portfolio, this document outlines certain specific investment policies that will govern how those goals are to be achieved. This investment policy:

- Formalizes the committee’s attitudes, expectations, objectives and guidelines for the investment of the portfolio assets,
- Creates a framework for effective communication between and among the committee and investment consultant,
- Describes an appropriate risk posture for the investment portfolio,
- Establishes investment guidelines regarding the selection of investments, permissible securities and diversification of assets,
- Specifies the criteria for evaluating the performance of the investments and of The Foundation assets,
- Complies with all applicable fiduciary, prudence and due diligence requirements that experienced professionals would utilize.

These policies will be reviewed and revised periodically to ensure that they adequately reflect changes related to the Foundation and the capital markets.

III. Statement of Objectives

The assets represented by this investment policy statement represent those assets that have been segregated by the Investment Committee for long-term investment. The Foundation assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The Investment Committee has determined that the investment of assets shall be guided by the following underlying principles:

- To balance the objective of capital preservation with the Mission of achieving a growing stream of income;
- To provide a regular, predictable income stream to provide the Board with adequate cash flow to provide services to the community consistent with the organization's Mission;
- To provide for asset growth at a rate in excess of the rate of inflation, net of disbursements;
- To diversify the portfolio's assets in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses that could occur from concentrated positions;
- To achieve investment results over the long-term that compare favorably with those of other professionally managed portfolios and appropriate market indexes.

It is expected that these objectives can be obtained through a well-diversified portfolio of high quality, low volatility (Beta) assets in a manner consistent with this investment policy.

This investment policy is intended to be a summary of an investment philosophy that provides guidance for the Investment Committee and other parties interested in the management of The Foundation. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined herein.

IV. Cash Flow and Liquidity Needs

The Foundation's distribution policy will be to make distributions as directed by the Foundation Board.

V. Responsibilities of the Investment Committee

The Investment Committee (Board) will have the following responsibilities:

- Establish a long-term strategic plan for The Foundation. This includes evaluating risk tolerance and establishing a long-term asset allocation policy consistent with the long-term investment objectives, financial needs and circumstances of The Foundation;
- Prudently select or approve investment options;
- Diversify the portfolio assets;
- To monitor and evaluate the performance of the portfolio assets as a whole and of each underlying asset class;
- Evaluate consultants and custodians for the Foundation's assets;
- Such other duties as may be described in this policy or as required by applicable laws and regulations.

VI. Responsibilities of the Investment Consultant

The Investment Consultant retained by the Investment Committee serves as an objective, third-party professional retained to assist the committee in managing the overall investment process. They are responsible for guiding the committee through a disciplined and rigorous investment process to assist the committee in meeting their fiduciary obligations. They shall have the following responsibilities:

- To assist the Investment Committee in strategic planning for The Foundation. This includes providing assistance in developing an asset allocation strategy, and investment structure, including selection investments;
- To provide to the Investment Committee quarterly performance measurement reports on each of the investment components and to assist the Investment Committee in interpreting the results;
- To monitor the portfolio investments on an ongoing basis and provide the Investment Committee with current information;
- Such other duties as may be mutually agreed upon.

VII. Risk Tolerance

Investment theory and historical capital market return data suggests that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (i.e. volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for The Foundation as a whole is the determination of an appropriate risk tolerance.

Positive factors that contribute to a higher risk tolerance for The Foundation are:

1. The long-term time horizon available for investment of The Foundation assets;

Offsetting these factors is:

1. The low probability of replenishing assets in the event of any large losses that may occur from holding concentrated positions;
2. The need for ample liquidity in the investments assets to fund the organizational mission;
3. The desire to reduce the probability of large fluctuations in market value from year-to-year;
4. The lack of any anticipated contributions to the portfolio.

VIII. Asset Allocation Strategy

Discuss target asset allocation and upper and lower limits:

	Minimum	Target	Maximum	Comparison Index
Equity	0%-40%	40%-60%	40%-70%	S&P 500
Fixed Income	30%-50%	40%-60%	50%-80%	ML U.S. Broad Master Bond
Alternative	0%	0% - 15%	10%-20%	HFR Fund of Funds Composite
Cash	0%- 10%	0%-10%	20%	30-day T-bills

Rebalancing Procedures

The allocation to each asset class and to investment styles within asset classes is expected to remain stable over most market cycles. Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall asset allocation, the aggregate asset allocation will be monitored and the Investment Committee will review the asset allocation and portfolio structure at least annually. Should an allowable range for the asset classes be violated, the Investment Committee must meet or conference to decide whether to rebalance the existing assets to the target asset allocation. To achieve the rebalancing of The Foundation, the Investment Committee may re-direct disbursements from individual asset classes as appropriate. The Investment Committee shall coordinate all rebalancing actions with the Investment Consultant.

IX. Performance Objective

The investment objective is income and growth. This investment objective calls for a balanced approach recognizing capital appreciation and a growing stream of current income over a full market cycle. The Foundation is expected to produce a regular income stream from which to **provide services** as determined by the Board. Portfolio risk-adjusted performance should be consistent with appropriate market indexes and peer groups over a five-year rolling time period. Performance will be evaluated on a quarterly basis.

X. Selection Criteria for Investment

Investment selection shall be made utilizing the following criteria:

- The investment style and discipline of the investment;
- How well the investment style or approach complements other assets in the portfolio;

- Level of experience, personnel turnover, financial resources, and staffing levels of the investment management firm or fund;
- An assessment of the likelihood of future investment success, relative to other opportunities;
- Past performance, considered relative to other opportunities having similar investment objectives. Consideration shall be given to both consistency of performance and the level of risk taken to achieve results.

The Foundation will utilize a product agnostic, multi-investment structure of complementary investment styles and asset classes to invest their assets. This combination should result in a well-diversified portfolio and assist The Foundation in achieving its long-term investment objectives.

XI. Investment Guidelines

Investment activity must be consistent within the requirements of this policy, the Fiduciary Standard of Care and applicable laws. In addition the following guidelines will apply:

Diversification Requirements

The equity portfolio should be diversified by styles and size, including but not limited to, core, international, small and mid-cap, passive, active, and smart Beta.

Domestic Equity Portfolio

- Investments in any one individual equity security should not exceed 5% of the market value of the overall equity portfolio at purchase;

International Equity Portfolio

Allowable international securities are American Depositary Receipts (ADRs) (also known as American Depositary Shares) or other depository securities of non-US based companies traded in the U.S., closed-end country funds, Indexes and ETFs (Exchange-Traded Funds). Equities of foreign domiciled companies traded in the U.S. may also be purchased so long as the securities are registered (or filed) with the Securities Exchange Commission and traded on a recognized national exchange or other-the-counter market. However, the country allocations and portfolio structure should conform to these guidelines:

- Investments in any one individual equity security should not exceed 5% of the market value of the overall equity portfolio at purchase;
- Currency hedging is not permitted, except by mutual fund investments and market linked investments;
- There are no constraints on the economic sector allocations of the portfolio. The investment manager or mutual fund may concentrate portfolio holdings in a limited number of economic sectors.

Fixed Income Portfolio

The fixed income portfolio shall be broadly diversified by country, issue, issue type, asset pool, quality, maturity and issuer.

- The minimum dollar weighted average quality of the individual bonds held in the portfolio will be rated “investment grade” by a nationally recognized rating agency.
- The quality rating of bonds held in bond mutual funds will be determined by the strategy and credit research provided by the fund managers.

Alternative Investment Portfolio

Allowable investments are the following:

- Hedge Funds
- Commodities
- Managed Futures
- Mutual Funds
- Market Linked Investments

XII. Meetings and Communications

- The Investment Consultant should speak monthly with a representative of the investment committee to discuss the portfolio as well as economic and market conditions;
- The Investment Consultant should meet with the investment committee at least annually to review the portfolio and progress towards portfolio objectives;
- **Biennially**, the Investment Consultant and investment committee should review the Investment Policy Statement (IPS) and make any appropriate or necessary modifications;
- **The Investment Consultant will provide written performance reports at least quarterly to the investment committee;**
- The custodian shall provide monthly statements of all assets and transactions.

XIII. Performance Evaluation

The investment portfolio performance shall be reported in terms of rate of return and changes in dollar value. The returns should be compared to appropriate indices and peer groups for the most recent quarter and for annual time periods and evaluated on a risk-adjusted basis. Performance will be compared against the target asset allocation with equity measured against the appropriate benchmarks.

The Investment Committee recognizes the importance of a long-term focus when evaluating the performance of the investment portfolio. The Investment Committee understands the potential for short-term periods when the performance of individual portfolio components as well as the overall portfolio may deviate significantly from the performance of representative market indexes.

XIV. Approval

It is understood that this investment policy is to be reviewed periodically by the Investment Committee to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or the market or economic environment. Should the Investment Committee permit a deviation from this policy or implement a change in policy, the circumstances and rationale for the change shall be documented and attached to this policy.

Chairman of the Investment Committee

Date