

CAIN CENTER FOR THE ARTS

Investment Policy Statement

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I. PREAMBLE

The purpose of this Investment Policy Statement (“IPS”) is to provide guidelines around the investing and disbursement of the assets of the Endowment Fund (“Endowment”) which serve as perpetual funding for the mission of Cain Center for the Arts (“Cain Center”). The Endowment shall be managed in such a way as to facilitate the organization’s goals and objectives as outlined by the Endowment’s Investment Committee (“Investment Committee”). This IPS does not apply to any other funds or investments of the Cain Center.

This IPS will be reviewed annually to ensure its contents’ relevance to current capital market conditions and the Fund’s needs. This IPS shall remain in effect until the Investment Committee approves a new or amended version. While revisions are expected to be infrequent, changing market conditions, product developments, and the Endowment’s complexity may require updates.

II. PURPOSE

The IPS for the Endowment Fund is intended to:

- A. Establish formal, yet flexible, investment guidelines incorporating prudent asset allocation and security selection, and realistic total return goals within stated risk tolerance levels.

- B. Provide a framework for regular, constructive communication between the Investment Committee, the Endowment Managers (defined in appendix) and other constituents.

- C. Outline the investment-related responsibilities of the Endowment Managers to manage the Endowment’s assets.

- D. Create standards of investment performance which are historically achievable and by which the performance of the Endowment Managers will be measured, over a reasonable time period.

III. OBJECTIVES AND PHILOSOPHY

A. Investment Objectives

The primary investment objective of the Endowment is to preserve the long-run purchasing power of the assets while providing a predictable, stable stream of income. In order to meet its needs, the investment strategy of the Endowment is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

1. Long-term Objective

- a. Through strategic asset allocation, the Endowment seeks to generate a total return that exceeds the annualized rate of inflation as measured by the Consumer Price Index (“CPI”) plus any distributions plus management fees, on a multi-year basis.
- b. Preserve the corpus.
- c. This will ensure the Endowment provides a sustainable earnings stream to support the Cain Center’s needs while preserving the real value of the Endowment.

2. Short-term Objective

- a. The Endowment seeks to earn a rate of return that exceeds the return generated by the Policy Benchmark Portfolio as described in section VI.
- b. The Endowment seeks to generate an appropriate level of annual income to provide to the Cain Center annually for capital expenditures or other needs as so determined by the Investment Committee, in conjunction with the Cain Center’s Board of Directors.

B. Distribution Policy

- 1. The Endowment shall distribute assets based on the following considerations: (i) the needs of the Cain Center, (ii) a distribution timeframe, and (iii) the rolling three year payout rate.
- 2. First and foremost, the Fund shall not be required to make distributions unless a beneficial expenditure in support of the funding objectives is identified beforehand.
- 3. Consistent with best practices, distributions to the Cain Center will be based on the Endowment’s three-year historical rolling average rate of total return, not to exceed 4%. The three year historical rolling average will commence on the fiscal year that is two years after the initiation of the Endowment.

C. Risk Tolerance

- 1. Given the Endowment’s long-time horizon, the Endowment can assume an above-average level of risk as defined by standard deviation of returns.
- 2. The Endowment should seek superior returns while minimizing tracking error relative to the benchmark (e.g., maximize the information ratio of the portfolio).

3. Long-term stability will be provided by the strategic asset allocation guidelines and overall management structure of the Endowment.
4. In addition, risks will be controlled through position and leverage limits.

D. Constraints

1. *Liquidity*

- a. Except for distribution requirements, annual liquidity needs are expected to be low. Therefore, no sizable liquid reserves are required.
- b. Liquidity could come in the form of additional contributions or the sale of marketable securities.
- c. As a practical matter, liquidity will be measured in a 3 tiered system at detailed below:
 - Liquid = available in 5-10 business days or less
 - Semi-Liquid = available in greater than 90 days but less than 2 years
 - Non-Liquid – not available for several years

2. *Time Horizon*

The Endowment has a long-term time horizon which extends well beyond normal market cycles and can be considered to be into perpetuity for the purpose of investment strategy.

3. *Tax Considerations*

The Endowment is exempt from federal, state and local taxes.

4. *Unique Circumstances*

The Endowment will attempt to raise capital through donations. However, the Endowment may be provided with initial seed capital directly from excess funds associated with the Cain Center's capital campaign.

E. UPMIFA

In seeking to attain the investment objectives set forth, the Cain Center Board, Investment Committee and its designees shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Fiduciaries must provide full and fair disclosure to the Investment Committee of all material facts regarding any potential conflicts of interests.

IV. OPERATIONAL STRUCTURE

The Endowment maintains an appropriate operational structure in order to meet its objectives and maintain its long-term viability.

A. Finance Committee

1. The Finance Committee will consist of members of the Cain Center Board elected to serve on the Finance Committee, the Treasurer of the Board of Directors and the Executive Director.
2. The Finance Committee will have authority over the Endowment's strategic asset allocation and the Endowment Manager.
3. This IPS will be considered in effect only upon the Finance Committee's approval. Specifically, the Finance Committee must approve (1) the strategic asset allocation, (2) position and leverage limits within the Fund, and (3) the risk

management and reporting procedures. The Finance Committee must also select and approve the Endowment's Manager and re-evaluate the Endowment Manager every three years or as so deemed by the Board.

B. Reporting

On a quarterly basis, the Endowment Manager shall present an update to the Investment Committee on the current and forecasted state of the markets, and the Endowment's positions, returns, and risk assessment. The update should include both quantitative and qualitative assessments representing the Endowment Manager's short and long term views of the Endowment and its position.

1. *Report Summary*

The report should summarize the investment strategy of the Endowment including tactical allocation during the period. Summary performance statistics should be presented as well.

2. *Performance Report*

The performance report should detail the performance of the Endowment over the last quarter, year-to-date, and for the one, three, five year, and since inception periods. The effects of fees and commissions should also be noted in the report.

The report must include the alpha generated by the Fund, defined as risk-adjusted returns generated above the Policy Benchmark, for the appropriate time periods.

In addition, the returns relative to benchmark should be broken out for each asset class over the appropriate time periods.

Risk measurements standard to the industry should be reported.

3. *Compliance Report*

A compliance report highlighting the Endowment's positions versus position and leverage limits shall be presented as part of the report. Compliance with structural constraints of the IPS, including asset allocation, will be included in the report.

4. *Portfolio Holdings*

The portfolio's holdings should be detailed in the report. The position report should include opening date, cost basis, market value, and exposure values. Position performance against the relevant benchmark since inception should also be included.

5. *Financial Position*

A statement of the Fund's financial position including cash flows and investment gains and losses (realized and unrealized) will be included in the annual report. The statement should include a breakdown of costs, distributions, and sources of funds.

6. *Market Report*

The Endowment's Managers shall present to the Investment Committee an update of recent market events and news. This update should incorporate a snapshot of economic reports and important announcements impacting holdings/funds. It should also include news affecting other positions (e.g. commodity prices). Relevant macroeconomic drivers expected to impact asset prices should be considered and discussed. The Endowment Manager's outlook for the markets in which the Fund participates should also be included in a forecast.

C. *Investment Manager Review*

Each active manager will be reviewed by the Investment Committee on an ongoing basis and evaluated upon the criteria listed below. The Investment Committee expects the managers to outperform the benchmarks over a full market cycle (for measurement purposes: 5 years). The Investment Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce underperformance. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:

1. Maintaining a stable organization.
2. Retaining key personnel.
3. Avoiding regulatory actions against the firm, its principals, or employees.
4. Adhering to the guidelines and objectives of this IPS.
5. Avoiding a significant deviation from their stated style.
6. Exceeding the return of the appropriate benchmark.
7. Exceeding the median performance of a peer group of managers with similar styles of investing.

Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, strength of business management and operations, and the amount of assets the Endowment already has invested with the Manager.

D. *External Audits*

1. Audits may be conducted every five years or more frequently if the Investment Committee votes to do so, by an external auditor selected by the Investment Committee.

2. The auditor will generate a report of risk and compliance that will include an analysis of current holdings and trading activity. Items to be presented include, but are not limited to, (1) report of performance including benchmark comparisons, (2) asset allocation analysis, (3) report on risk measures such as exposure and value at risk, and (4) compliance with position limits.

3. The auditor may also report on qualitative aspects such as control and monitoring procedures for the fund.

V. PORTFOLIO COMPOSITION

The Endowment is intended to achieve an appropriate risk adjusted and inflation-adjusted return that will enable it to provide support for the Cain Center. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Endowment, rather than judging asset categories on a stand-alone basis.

In this IPS, gross exposure is defined as the sum of the absolute notional values of all positions except cash and money markets. Net exposure is the notional value of all long positions minus the absolute notional value of all short positions excluding cash and money markets. In determining portfolio composition, dollar delta exposure is used to estimate the sensitivity of a position to a change in the value of an asset and is of particular importance when considering combined positions.

A. Asset Allocation

The Strategic Target Allocation and Tactical Ranges are provided below. The Tactical Ranges provide flexibility for shifts in the actual asset allocation to take advantage of market conditions. The actual asset allocation may temporarily fall outside of these guidelines with approval from 2/3 of the Finance Committee that the allocation is appropriate under the circumstances.

<u>Asset Class</u>	<u>Target</u>	<u>Allowed Range</u>
Global Equities	65%	
Domestic	40%	
Non-US Developed	15%	
Emerging	10%	
Fixed Income	20%	
Real Estate/Real Assets	8%	
Special Situations	5%	

Cash & Cash Equivalents 2%

Net exposures as a percent of total NAV

B. Asset Class Strategy

Decisions regarding the allowed range among asset classes, or the addition of new asset classes, will be made by the Investment Committee when such actions are expected to produce incremental return, reduce risk, or both. The investment characteristics of an asset class including expected return, risk, correlation, and its overall role in the portfolio will be analyzed when making such decisions. It is expected that extreme individual positions will be avoided to prevent the possibility of a significant reduction in value due to adverse market conditions.

1. Equities

The Equities allocation will consist of public and private equity-oriented funds managed by external investment firms or equity index funds/mutual funds/ETFs. This is expected to be the highest risk, highest return asset category of the four. The allocation will be diversified by factors including security, sector, geography, market capitalization, and manager style. Equities are included to provide long term capital appreciation and to protect the portfolio from the effects of inflation. A mix of domestic and international equities is included to enhance return and provide diversification.

2. Fixed Income

Fixed Income investments preserve principal during periods of deflation, provide current income, and reduce the Endowment's overall volatility. The Fixed Income allocation will consist of two broad categories: 1) high quality / rate sensitive and 2) credit /distressed. The high-quality bonds provide equity risk mitigation, deflation protection and liquidity to the portfolio. The credit / distressed allocation provides investment opportunities to generate a substantial real return.

3. Real Estate/Real Assets

Investments in real assets are principally intended to hedge against inflation and provide significant real returns during periods of rising inflation. the Real Estate/Real Assets allocation will consist primarily of real estate and natural resources. Real assets historically have shown little correlation to equity or fixed income assets and provide a diversifying benefit to the portfolio.

4. Special Situations

These strategies are intended to provide a way for the portfolio to hedge against certain risks such as interest rate risk or currency exposure. In addition, these strategies have historically provided consistent, stable returns

with reduced volatility. These strategies provide further diversification benefits due to a low correlation with equities and real assets.

The Endowment's Managers will make the final determination as to the appropriate assets within each asset class based on the securities involved, risk sources, correlation, liquidity, transaction costs and strategic intent.

4. Cash & Cash Equivalents

1. Treasury Bills, Money Market Funds, Certificates of Deposit, Repurchase Agreements,

C. Prohibited Investments

The following investments represent an extraordinary risk of loss and are not appropriate for the Endowment.

1. *OTC, Penny Stocks*

OTC and Penny Stocks (i.e., those trading at \$2 or less), are inappropriate and prohibited.

2. *Derivatives*

Investments in derivatives and derivative contracts are prohibited.

3. *Hedge Funds*

Given their asymmetric risk profile and fee structure, hedge funds are prohibited.

4. *Cryptocurrencies*

There is insufficient historical data to evaluate fully this asset class' returns, risk and correlation to other asset classes. Therefore, investments in cryptocurrencies are prohibited.

D. Rebalancing Policy

Deviations in actual asset weights from the stated targets are expected and can result from (1) overall market movements, (2) cash flows, and (3) performance variations of Endowment investments. Substantial deviations may adversely affect the risk and return characteristics of the Endowment.

The Endowment Manager is authorized to recommend a rebalancing to the Finance Committee when they believe it necessary. A rebalancing proposal should include a strategy rationale that considers the costs of rebalancing along with the benefits. The proposal should only include changes to investments already in the Endowment and shall not take new positions but may eliminate some positions. In order to rebalance the portfolio, a majority vote of the Finance Committee must approve the rebalancing plan.

VI. EVALUATION AND PERFORMANCE MEASUREMENT

A. Primary Objective

The Investment Committee seeks to outperform its benchmarks over full market cycles and does not expect that all investment objectives will be attained in each year. Furthermore, the Investment Committee recognizes that over various time periods, the Endowment may produce significant deviations relative to its benchmarks. For this reason, investment returns will be evaluated over a full market cycle (for measurement purposes: 5 years).

The primary objective of the Endowment is to achieve a total return, net of fees, equal to or greater than distributions, administrative fees, and inflation. The primary objective can be articulated as:

Total Return greater than US Consumer Price Index + Distribution Policy + Administrative Fees

B. Secondary Objective

1. A secondary objective is to achieve a total return in excess of the Broad Policy Benchmark, comprised of each broad asset category benchmark weight by its target allocation.

The strategic long-term Broad Policy Benchmark is:

INDEX	ASSET CATEGORIES
Russell 3000 Index	Domestic Equity, Private Equity, Real Assets
MSCI All-Country World ex U.S. Index	International Equity
Barclays Capital Aggregate Bond Index	Global Fixed Income and Diversifying Strategies

2. Another investment objective is to achieve a total return in excess of the Target Weighted Benchmark comprised of specific benchmarks weighted by target allocations. This benchmark will vary depending upon the managers selected and the current allocation to private capital investments which cannot be precisely managed. The specific benchmarks and weightings will be listed in the performance report.

C. Summary of Quantitative Performance and Risk Objectives

1. Long-Only Active Managers

Managers are expected to outperform their primary benchmark and rank in the top 50% of their peer universe. Managers failing to meet these criteria over a full market cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager's personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure.

VII. GUIDELINES & RESTRICTIONS

A. Overview

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable for the market environment in which investment decisions must be evaluated. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the Endowment's investments.

The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Endowment. Although the Investment Committee cannot dictate policy to pooled/mutual fund investment managers, the Investment Committee's intent is to ensure the Endowment Manager selects and retains only pooled/mutual funds with policies that are similar to this IPS. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. The Endowment Manager shall select and monitor equity and fixed income investment managers and:

- 1.** Each quarter, notify the Investment Committee in writing and highlight any material changes in the investment philosophy, strategy, portfolio structure, ownership, or senior personnel of the equity and fixed income investment managers deployed for the Endowment
- 2.** Make no purchase that would cause a position in the Endowment portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management

C. Public Investment Grade Fixed Income Manager Guidelines

The Fund Manager will monitor and ensure that each active fixed income investment manager shall:

- 3.** Maintain an overall weighted average credit rating of A or better by Moody's and Standard & Poor's
- 4.** Maintain a duration within +/-20% of the effective duration of the appropriate benchmark (does not apply to TIPS managers)
- 5.** Assure that any one issuer does not exceed 5% of the manager's portfolio, as measured at market value, except for securities issued by the U.S. government or its agencies

VIII. ACKNOWLEDGEMENT

We recognize the importance of adhering to the philosophy and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this objective, and therefore, recognize that suggestions regarding appropriate adjustments to this IPS or the manner in which investment performance is reviewed are welcome.

Cain Center Investment Committee Representative (Date)

Investment Manager (Date)