



**UNIVERSIDAD ALBIZU
JUNTA DE SÍNDICOS**

**ALBIZU UNIVERSITY
BOARD OF TRUSTEES**

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Nombre y firma del secretario de la Junta / Board Secretary's Name and Signature:	Antonio E. Puente <i>Antonio E. Puente</i>	

1.0 INTRODUCTION

Founded in 1966, Albizu University is the first professional school of psychology established in North America and the Caribbean. The university is accredited by the Middle States Commission on Higher Education (MSCHE); the clinical psychology programs are accredited by the American Psychological Association (APA); and the Master of Science in Speech and Language Pathology program is accredited by the Council on Academic Accreditation of the American Speech-Language-Hearing Association (ASHA). The Ph.D. in Clinical Psychology program at AU's San Juan campus received the Example of Excelencia award by Excelencia in Education in 2011, the only institution in Puerto Rico to be bestowed this honor.

Albizu University offers an enriching academic environment with exciting and challenging programs in psychology, education, speech and language, criminal justice, ESOL, and human services. At our campuses in San Juan and Miami, over 2,000 students from diverse backgrounds prepare themselves to assume responsible and productive roles in society. AU faculty, administrators, and staff actively promote the professional development of students both inside and outside the classroom.

2.0 POLICY STATEMENT

This policy statement outlines the goals and investment objectives of the Endowment. Since this document is intended to provide guidelines for the Finance, Investments, Compensation & Planning Committee (CFICP) and the investment advisors responsible for managing Institution's assets, it outlines certain specific investment policies, which will govern how those goals are to be achieved. This statement:

- Describes an appropriate risk posture for the investment of Institution's assets.
- Specifies the target asset allocation policy.
- Establishes investment guidelines regarding the selection of Investment Manager(s), permissible securities, and diversification of assets.
- Specifies the criteria for evaluating the performance of Institution's Investment Manager(s) and of the Portfolio as a whole.
- Defines the responsibilities of the CFICP, the financial consultant, the investment advisors, and other parties responsible for the management of the Endowment's assets.

The CFICP believes that the investment policies described in this statement should be dynamic. These policies should reflect the Endowment's current financial status, and the Finance, Investments, Compensation & Planning Committee's philosophy regarding the investment of assets. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the Endowment and the capital markets.

3.0 RESPONSIBILITIES of the ENDOWMENT REPRESENTATIVES

As a fiduciary, the primary responsibilities of CFICP are:

- Prepare and maintain an investment policy statement.
- Prudently diversify the accounts assets to meet an agreed upon risk/return profile.
- Prudently select investment options.
- Control and account for all investment, record keeping and administrative expenses; associated with the accounts.
- Monitor and supervise all service vendors and investment options.
- Avoid prohibited transactions and conflicts of interest.
- Review at least annually all costs associated with the management of the Portfolio's investment program.

4.0 RESPONSIBILITIES of the INVESTMENT MANAGERS

It is the intention of the Committee to select prudent experts to manage the assets that can include regulated banks, insurance companies, mutual fund organizations or registered investment advisors. The following guidelines apply to separately managed accounts.

Fiduciary Responsibilities

Each Registered Investment Manager is to manage Institution's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and in accordance with applicable laws. This would include discharging responsibilities consistent with "Prudent Investor" and suitability standards, and all other fiduciary responsibility provisions and regulations. Institution's assets will be managed by experienced investment management firms (years in the business, academic background, proven performance measures, moral character).

Each Investment Manager shall produce evidence that:

- Maintain adequate fiduciary liability insurance from a reputable and nationally recognized insurance company with strong capital ratios.
- At all times be registered as an investment adviser under the Investment Advisers Act of 1940 (where applicable); and be registered in Puerto Rico.
- Acknowledge in writing that they are a fiduciary with respect to the assets they manage.

Proxy Voting

Absent delegation to another service provider, each Investment Manager is responsible and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. The Investment Manager(s) shall vote proxies according to their established Proxy Voting Guidelines. A copy of those guidelines, and/or summary of proxy votes shall be provided to the CFICP upon request.

5.0 OBJECTIVES**Investment Objectives**

There are three principles of investing that those who are managing the Institution's assets should be aware of:

1. The security of the investments. The assets should not run a risk greater than those inherent in a prudent and sensible investment management.
2. The return on investments, being aware that the higher the returns, the higher the risks.
3. The liquidity of the investments. The investments must be able to be converted to cash when necessary, unless agreed upon in another section of this investment policy.

Minimum cash should be 10% of total investment account.

Security and controlled volatility should have a higher priority than a possible greater return.

In investment terms, the Institution translates these objectives as an investment strategy that shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing its investment objectives, the CFICP has considered the time horizon available for investment, the nature of Institution's cash flows and income streams, and other factors that affect the Endowment's risk tolerance.

Accordingly, the investment objective of this Endowment is **Growth and Income**. This investment objective is a moderate risk approach that emphasizes capital appreciation over income generation throughout a full business cycle (three to five years).

Return Objectives***Primary Performance Target:***

It is desired that the Endowment produce an overall **real rate of return of 5%** or greater net of fees.

Policy Benchmark: It is desired that the Endowment produce a target return net of expenses in excess of 200 basis point over the "market," as represented by a benchmark index or mix of indexes reflective of the Endowment's return objectives and risk tolerance. This benchmark or "policy index" is based on the policy allocation targets and benchmarks listed in section VII.

Risk Tolerance

Investment theory and historical capital market return data suggest 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 Endowment is the determination of an appropriate risk tolerance. The CFICP examined its willingness to take risk and the Endowment's financial ability to take risk.

The CFICP examined their risk tolerance by relevant factors.

Positive factors that contribute to a higher risk tolerance are:

- (1) The long-term time horizon available for investment.
- (2) There is no finite liability that must be funded.

Offsetting these factors are:

- (1) Any material losses to the portfolio that could cause the Committee to dramatically change Institution's willingness to accept risk.
- (2) Institution's need for a relatively stable source of income for its needs and operations.
- (3) Institution's must be able to meet unexpected expenses or liabilities.

Based on these factors, the CFICP chose a risk profile of **Moderate**. This profile is for investors who are willing to take moderate risk. We already have a growth and income financial objective. Primary emphasis is on achieving average portfolio appreciation over time. A typical portfolio will have exposure to various asset classes but will be weighted towards equities.

6.0 CONSTRAINTS**Time Horizon**

The Endowment has a long-term investment horizon of over 10 years.

Liquidity Requirements

Institution favors liquid securities in a large portion of its portfolio, investments trusts that trade in listed markets.

Institution, through its CFICP shall try to anticipate and forecast, to the extent possible, liquidity requirements, to avoid selling securities under adverse market conditions. Fixed income instruments shall have different maturities to reduce liquidity risk.

Spending Policy

There is currently no spending policy in place since Institution's annual expenses are fully covered with their regular income.

Tax, Legal / Regulatory and Unique Considerations

Institution does not pay income taxes.

7.0 INVESTMENT STRATEGY

Selection Criteria for Investment Managers

Investment Managers retained by the CFICP shall be chosen using the following criteria:

- The investment style and discipline of the Investment Manager; FORM ADV DISCLOSURE
- Past performance considered relative to other investments having the same investment objective. Consideration shall be given to both consistency of performance and the level of risk taken to achieve results; FORM ADV or could ask for reference to communicate with other clients.
- How well the Investment Manager's investment style or approach complements other Investment Managers in the portfolio.
- Level of experience, financial resources, and staffing levels of the Investment Manager.
- An assessment of the likelihood of future investment success, relative to other opportunities.
- How well the investment manager maintains a high correlation to the asset class for which it was hired.
- Minimum track record: The product's inception date should be greater than three years.
- Stability of the organization – agreement with Registered Investment Advisor (ex. Santander Asset Management): There should be no perceived organizational problems – the same portfolio management team should be in place for at least two years.

Security Selection/Asset Allocation

Except as noted below, each Investment Manager shall have the discretion to determine their portfolio's individual securities selection in tandem with the investment policy:

- The Endowment's portfolio is expected to operate within an overall asset allocation strategy defining the portfolio's mix of asset classes. This strategy, described below, sets a long-term percentage target for the portfolio's market value that is to be invested in any one asset class. The allocation strategy also defines the allowable investment shifts between the asset classes, above and below the target allocations.
- The asset allocation strategy for each Investment Manager's portfolio upon notification to the CFICP can deviate from the overall Endowment's asset allocation, however, the CFICP is responsible for evaluating investment allocation presented quarterly by the investment advisor and may re-balance to the target allocation on a periodic basis.
- Because the Investment Manager is already charging an agreed fee, any investment product which carries any fee, load or sales charge or any additional compensation must be disclosed to the Investment Committee. Also, any markup or markdown must also be disclosed.

Diversification Requirements

The primary method to reduce risk of the Endowment is diversification through asset allocation. By allocating assets in different asset classes, the portfolio can benefit from avoiding concentration as well as the low correlation between different asset classes.

Each Investment Manager has discretion regarding security selection and allocation within their respective portfolio. Unless otherwise noted below, under normal market conditions, each Investment Manager is expected to be invested consistent with their investment style as described in any relevant investment management agreement with the selected investment

advisor(s). During the initial three months of the relationship after being retained, the Investment Manager may hold cash and cash equivalents in larger proportions to invest their portfolio on an orderly basis.

To minimize the risk of large losses, each Investment Manager shall maintain adequate diversification in their portfolio. Subject to the constraints outlined in this investment policy, and in their investment management agreement with the Endowment, each Investment Manager shall have the discretion to determine their portfolio's individual security selections.

Derivatives and Structured Products are excluded as part of this investment policy.

Alternative Investments

Alternative investments represent investments in investment vehicles that seek to provide diversification through innovative and flexible strategies (such as the ability to short, add leverage and hedge). Investments in such vehicles are expected to provide diversification and the opportunity for capital appreciation. Diversification standards within each investment vehicle shall be according to the prospectus or trust document. Investments in these investment vehicles carry special risks. This fund(s) may utilize speculative investment strategies, trade in volatile securities, and use leverage to generate superior investment returns. This fund(s) may invest in illiquid securities for which there is no ready market and place restrictions on investors as to when funds may be withdrawn. In the event the CFICP authorizes an alternative investments portfolio, permitted alternative investments are:

- Institution may also invest in managed funds of Private Equity, Managed Futures and Commodities.
- Not more of 5% of University funds should be invested in alternative investments.

Cash and Equivalents

It is generally expected that the Investment Manager will remain fully invested in securities; however, it is recognized that cash reserves may be utilized from time to time to provide liquidity or to implement some types of investment strategies. Cash reserves should be held in the custodian's money market fund, short-term maturity Treasury securities, insured savings instruments of commercial banks and savings and loans.

Transactions or unanticipated market actions that cause a deviation from these policy guidelines should be brought to the attention of the CFICP by the Investment Manager prior to executing transactions, when practical. Such deviations may be authorized in writing by the CFICP when they determine that the deviation does not constitute a material departure from the spirit of this policy.

Exclusions

Institution's assets invested in separately managed accounts may not be used for the following purposes (unless used by approved hedge funds or specifically approved in writing by the CFICP):

- Purchases of letter stock, private placements, or direct payments.
- Private placement convertible issues, also known as "144A" convertible securities,
- Commodities transactions unless by managers approved for that strategy.
- Puts, calls, straddles, or other option strategies (unless used to hedge an open position to reduce risk, or close the hedge, or to generate income through covered call writing).

- Purchases of real estate, oil and gas properties, or other natural resources related properties except for Real Estate Investment Trusts, Master Limited Partnerships in the Energy sector or securities of real estate operating companies.
- Investments by the Investment Manager in their own securities or of their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Committee).
- Investments in futures or investments in any derivatives not explicitly permitted in this policy statement (unless used to hedge an open position or close a hedge).
- Derivatives and Structured products
- Any other security transaction not specifically authorized in this policy statement, unless approved, in writing, by the CFICP.

Requests by Investment Managers to execute transactions that are not currently authorized in this policy should be made prior to executing such transactions.

Investment Transactions

Each Investment Manager's primary responsibility shall be to seek to obtain best net price and execution for the Endowment. Execution capability, price and overall effectiveness shall be considered, along with commission rate. A commission shall be not more than 2 cents per share.

8.0 ASSET ALLOCATION STRATEGY

In line with the Endowment's return objectives and risk parameters, the mix of assets should be generally maintained as follows (percentages are of the market value of the Endowment's investments): IN ANY CASE NOT MORE THAN 15% IN ANY ASSET CLASS, EXCEPT CASH

A. Eligible Securities and Activities

- a. Direct obligations of the United States and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided that the full faith and credit of the United States of America must be pledge to any such direct obligation or guarantee.

Maximum Term	30-year maturity
Maximum Single Purchase	No limit
Maximum Aggregate Position	No limit

- b. Direct obligations of U.S. Agencies and Instrumentalities to include government-sponsored enterprises (GSEs): callable, step-up, and bullet. Securities falling within this category must be either guaranteed by the government or one of its agencies. Agency obligations must be rated within the highest three categories by two credit rating agencies (Standard & Poor's, Moody's, or Fitch): A, AA, or AAA and always above A.

Maximum Term	30-year maturity
Maximum Single Purchase	10% of portfolio per issue
Maximum Aggregate Position	No limit

- c. Municipal Securities - Direct obligations of any state of the United States of America or any of its subdivisions or agencies rated within the highest three categories (A, AA, or AAA and always above A) by two credit rating agencies (Standard & Poor's, Moody's, or Fitch) at the time of purchase. Obligations that do not meet this requirement should be evaluated by the Committee and can only be purchased after the Committee has granted permission to do so.

Maximum Term	30-year maturity
Maximum Single Purchase	5% of portfolio per issue
Maximum Aggregate Position	50% of portfolio

- d. Municipal Securities - Direct obligations of the Commonwealth of Puerto Rico or any of its subdivisions or agencies rated within the highest three categories (A, AA, or AAA and always above A) by two credit rating agencies (Standard & Poor's, Moody's, or Fitch) at the time of purchase. Obligations that do not meet this requirement should be evaluated by the Committee and can only be purchased after the Committee has granted permission to do so.

Maximum Term	30-year maturity
Maximum Single Purchase	5% of portfolio per issue
Maximum Aggregate Position	30% of portfolio

- e. Corporate Bonds rated within the highest three categories (A, AA, or AAA and always above A) by two credit rating agencies (Standard & Poor's, Moody's, or Fitch) at the time of purchase. Obligations that do not meet this requirement should be evaluated by the Committee and can only be purchased after the Committee has granted permission to do so.

Maximum Term	10-year maturity
Maximum Single Purchase	5% of portfolio per issue
Maximum Aggregate Position	20% of portfolio

- f. Mortgage-Backed Securities (MBS) issued by a Federal Agency of the United States government and rated within the highest three categories (A, AA, or AAA and always above A) by two credit rating agencies (Standard & Poor's, Moody's, or Fitch) at the time of purchase. Obligations that do not meet this requirement should be evaluated by the Committee and can only be purchased after the Committee has granted permission to do so.

Maximum Base Avg. Life (Assuming a PSA of 100)	10 years
Maximum Single Purchase	10% of portfolio per issue
Maximum Aggregate Position	25% of portfolio

- g. Foreign Corporate Bonds and Sovereign Bonds rated within the highest three categories (A, AA, or AAA and always above A) by two credit rating agencies (Standard & Poor's, Moody's, or Fitch) at the time of purchase. Obligations that do not meet this requirement should be evaluated by the Committee and can only be

purchased after the Committee has granted permission to do so. Investments in foreign bonds are limited to those traded in U.S. dollars, thereby limiting exposure to changes in the foreign currency rate of exchange.

Maximum Term	5-year maturity
Maximum Single Purchase	5% of portfolio per issue
Maximum Aggregate Position	25% of portfolio

- h. Money Market Securities – Federally insured certificates of deposit, commercial paper rated A1/P1, and Money Market Mutual Funds. Money Market Mutual Funds must have as an investment objective the maintenance of a stable net asset value (NAV) of \$1 for each share. An investment pool must mark its portfolio daily, to the extent reasonably possible stabilized at a \$1 asset value, maintain an advisory board, and must be rated no lower than A by at least one nationally recognized rating service. Securities that do not meet this requirement should be evaluated by the Committee and can only be purchased after the Committee has granted permission to do so.

Maximum Term	1 year maturity
Maximum Single Purchase	No limit
Maximum Aggregate Position	20% of portfolio

- i. Real Property - This asset class will be considered on a one-to-one basis by the Committee and approved by the Board of Directors.
- j. Collateralized Lending - not approved by the Committee.

Asset Class	Minimum	Target Average	Maximum	Benchmark
Large Cap Equity	0.00%	.10%	.15%	Russell 1000
Large Cap Growth	0.00%	.10%	.15%	Russell 1000 Growth
Large Cap Value	0.00%	.10%	.15%	Russell 1000 Value
Small Cap Equity	0.00%	.10%	.15%	Russell 2000
Small Cap Value	0.00%	.10%	.15%	Russell 2000 Value
Small Cap Growth	.00%	.10%	.15%	Russell 2000 Growth
Mid Cap Equity	0.0%	.10%	.15%	Russell 2500
Mid Cap Value	0.00%	.10%	.15%	Russell 2500 Value
Emerging and International Markets	0.00%	.10%	.15%	MSCI EM Europe/Middle East
Hedge Funds	.00%	.10%	.15%	CSFB/Tremont Hedge Fund Index
Managed Futures	.00%	.10%	.15%	CSFB/Tremont Managed Futures
Private Equity	.00%	.10%	.15%	Dow Wilshire Microcap
Global Bonds	.00%	.10%	.15%	Barclays Ex US Treasury Bond
Real Estate/REIT's	.00%	.10%	.15%	Dow Wilshire REIT (full cap)

Asset Class Totals		Minimum	Target Average	Maximum
Total Equity		40%	50%	60%
Total Cash Equivalents		3%	10%	25%
Total Fixed Income		20%	50%	80%
Total	Alternative	5%	5%	5%
Investments				

Rebalancing Procedures

The allocations to each asset class and to investment styles within asset classes are 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 Endowment's asset allocation, the aggregate asset allocation will be monitored; and the CFICP may rebalance the Endowment to the target allocation on a periodic basis. No less than quarterly, the allocation will be reviewed and rebalanced to within 15% of the current Strategic Targets. To achieve the rebalancing of the Endowment, the CFICP may instruct the Investment Consultant to re-direct contributions and disbursements from individual Investment Managers as appropriate, in addition to shifting assets from one Investment Manager to another.

Deviation from this asset mix guideline may be authorized in writing by the CFICP when they determine that the aggregate deviation does not constitute a material departure from the spirit of the target allocation.

9.0 PERFORMANCE EVALUATION

As noted above, the CFICP will monitor the Endowment's performance on a quarterly basis. The Committee will evaluate the Endowment's success in achieving the investment objectives outlined in this document over a three- to five-year time horizon and a full market cycle.

The Endowment's (and Investment Manager's) performance should be reported in terms of rate of return and changes in dollar value. **At the time of retention, the CFICP and Investment Manager(s) will agree to appropriate benchmark(s).** The returns should be compared to appropriate market indexes for the most recent quarter and for annual and cumulative prior time periods. The Endowment's asset allocation should also be reported on a quarterly basis.

Risk as measured by volatility, or standard deviation, should be evaluated after twelve quarters of performance history have accumulated. An attribution analysis should also be performed, to evaluate how much of the Endowment's investment results are due to the Investment Managers' investment decisions, as compared to the effect of the financial markets. It is expected that this analysis will use the "policy index" as the performance benchmark for evaluating both the returns achieved and the level of risk taken.

10.0 GUIDELINES FOR CORRECTIVE ACTION

The CFICP recognizes the importance of a long-term focus when evaluating the performance of investment managers. The CFICP understands the potential for short-term periods when the performance of individual managers may deviate significantly from the performance of representative market indexes. The CFICP, however, may require an extra level of scrutiny, which may include termination, of an investment manager based on the following conditions:

- Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account. Failure on the part of the investment manager to notify the CFICP or the Investment Consultant may be grounds for termination.
- Any material client servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Section XI of this investment policy.
- Violation of terms of contract without prior written approval of the CFICP constitutes grounds for termination.
- Diversification strategy as part of its overall asset allocation strategy, the Endowment will utilize a multi-manager structure of complementary investment styles and asset classes to invest the Endowment's assets. Therefore, it is very important that investment managers remain consistent with the intended investment style at that time the manager was engaged.
- The CFICP will not, as a rule, terminate an investment manager based on short-term performance. If the organization is sound and the firm is adhering to its investment style and approach, the CFICP will allow a sufficient interval of time over which to evaluate performance. The CFICP expects that the Investment Consultant will provide guidance to determine an appropriate length of time. The Investment Manager's performance will be viewed considering the firm's particular investment style and approach, keeping in mind at all times the Endowment's diversification strategy as well as the overall quality of the relationship.
- The investment manager may be replaced at any time as part of an overall restructuring of the portfolio. The CFICP reserves the right to terminate an investment manager for any other reason in accordance with any applicable investment management agreements.

11.0 MEETINGS AND COMMUNICATION WITH THE INVESTMENT MANAGERS

- As a matter of course, each Investment Manager should keep the CFICP and the Institution's Investment Consultant apprised of any material changes in the Investment Manager's outlook, investment policy, and tactics.
- Each Investment Manager should be prepared to discuss with the CFICP annually and/or as requested to review and explain their portfolio's investment results. The Investment Managers should discuss with the Investment Consultant any significant changes in corporate or capital structure and brokerage affiliation or practices.
- Each Investment Manager should be available on a reasonable basis for telephone communication when needed.
- Any material event that affects the ownership of each Investment Management firm or the management of this account must be reported promptly to the CFICP and the Endowment's Investment Consultant.
- The Endowment's Investment Consultant will provide written performance reports to the CFICP not less than quarterly.

This investment policy is intended to be a summary of an investment philosophy that provides guidance for the CFICP and other parties interested in the management of these assets. It is

understood that there can be no guarantees about the attainment of the goals or investment objectives outlined here.

12.0 APPROVAL

Deviations from the investment policies and constraints outlined in this document may be authorized in writing by the CFICP when they determine that the aggregate deviation does not constitute a material departure from the spirit of this investment policy.

It is understood that this investment policy is to be reviewed periodically by the Endowment to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or changes involving the Investment Managers.

13.0 IMPLEMENTATION

This policy will be implemented immediately after its approval.

14.0 AMENDMENTS

This policy replaces any other previous investments policies and may be amended, at any time, by the Board of Trustees.