KEAN UNIVERSITY
FOUNDATION

Investment Policy

TABLE OF CONTENTS

KEAN UNIVERSITY FOUNDATION
INVESTMENT POLICY

I. PREFACE

This Policy shall establish guidelines for the investment and management of all funds and property housed by The Kean University Foundation ("Foundation") as well as monies and property held by the Foundation in trust for others.

II. STATEMENT OF INVESTMENT OBJECTIVES

The investment objectives of the Foundation are to manage contributions in a manner that will provide moderate long-term portfolio growth while producing current income to support the programs of the Foundation. It is the Foundation's intention to preserve a predictable income stream while increasing the value of the principal, with a level of credit risk and market risk considered acceptable by the Foundation's Investment Committee of the Board of Directors. The guiding philosophy of the Foundation is to invest in a portfolio of high quality, diversified financial assets that provide returns consistent with the mission of the Foundation.

III. STATEMENT OF RESPONSIBILITY OF THE INVESTMENT COMMITTEE

The Board of Directors of the Foundation (the "Board") has the fiduciary responsibility to manage the financial affairs of the Foundation for the benefit of Kean University. Towards that end, it has delegated this authority to the Investment Committee, which it has appointed. The Investment Committee has the authority and responsibility of developing and administering the investment philosophy, goals and objectives of the Foundation, and of managing the assets of the Foundation within the guidelines set forth in this Investment Policy. Further, with the approval of the Foundation's full Board, the Investment Committee shall delegate the operational control over the endowment of the Foundation to an investment manager, who will have the authority to act on behalf of the Foundation subject to the restrictions of the Board and the Investment Committee.

The Investment Committee shall be comprised of no fewer than four (4) members of the Board and the Chief Executive Officer of the Foundation. The Investment Committee shall meet on an as-needed basis, but in no case, less than semi-annually. A simple majority of the Investment Committee shall constitute a quorum, but any action must receive a two-thirds vote for passage regardless of the number of members in attendance. Meetings may be held by conference call.

IV. SPENDING POLICY

The Foundation has established a Spending Policy to preserve purchasing power of the assets, to protect against erosion of principal and to promote stability and predictability with respect to annual budgeting. The Spending Policy of the Foundation is designed to maintain the real (after-inflation) value of the principal of the endowment. Thus, the Foundation is to allocate to the support of its programs a portion of current income so as not to exceed net returns minus inflation. The "Spending Rule" defines the annual percentage (%) that will be withdrawn from the Fund to support students, faculty, facilities and programs, as well as operational costs. Appropriately defined "Spending Rules" become particularly important in an inflationary environment to protect and sustain the inflation-adjusted value of principal assets. An endowment cannot maintain the real value of its portfolio or its future grants if payout exceeds real return (actual net return minus inflation).

The "Spending Rule" will be determined by the Investment Committee based upon the budget requirements submitted by the Chief Executive Officer of the Foundation. It shall be the responsibility of the Investment Committee to periodically review the "Spending Rule" against actual net returns generated by the endowment in order to make necessary adjustments for the preservation of principal of the endowment. The budget requirements should be submitted by the Chief Executive Officer of the Foundation at the Investment Committee meeting prior to the Foundation's fiscal year end and voted on by the Committee at this meeting. The planned annual spending from the Endowment should then be communicated to the Investment Manager so he/she/they can plan accordingly.

The Foundation will continue to use the current calculation of a three-year (3) market value average for its endowments. In a three-year (3) average where one (1) year has an outlier that causes the three-year (3) average to fall below the corpus (such as a severe market fluctuation or a large gift in a given year that will skew the calculation), the Foundation will prudently review the fund's performance. In such a case, the Foundation will use the prior year's market value for comparison to determine awards for that fiscal year only.

If the market value of the prior single year is above the corpus value of an endowment, the Foundation may award up to four and a half percent (4.5%) of the corpus value limited to the fund's earnings. The corpus value will be used only as a marker and the fund's corpus will not be invaded. In the event the market value for that single year is below the corpus value, no award shall be disbursed from this fund.

V. PROFESSIONAL MANAGEMENT

The Foundation reserves the right to utilize professional management services for the investment of its funds. The performance of its Investment Manager will be monitored by the Chief Executive Officer of the Foundation and the Investment Committee. If the Investment Committee determines that performance is below agreed upon standards, a recommendation may be brought forward to the full Board to replace the Manager. The Board's selection of an Investment Manager must be based on prudent due diligence procedures. A qualifying Investment Manager must be a Registered Investment Advisor under the Investment Advisors Act of 1940 (or a bank or insurance company).

The Investment Committee should consider at least the following when evaluating the Investment Manager, investment philosophy and performance:

- **Client relations and references:** *stability of the firm's client base as well as the quality of references from clients and others with respect to investment performance, organizational integrity and any other applicable factors;*
- **Process and philosophy:** *coherence of the process and philosophy underlying the investment mandate and associated risk control measures;*
- **Performance:** *coherence of the process and philosophy as reflected in the firm's past performance; likelihood that, based on process, philosophy and skill of the manager, good performance will persist;*
- **Fit:** *contribution investment style and process is expected to make to the investment performance and risk profile of a given overall Investment Fund portfolio;*
- **Terms:** *proposed cost of the service, appropriateness of the fee structure for the strategy employed, reasonableness of key terms (e.g., liquidity provisions); and*
- **Other Qualifications:** *licenses, broker/dealer info, experience, references, audit reports, financials, financial analysis, etc.*

The investment performance of the total portfolio, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this Policy. The Committee intends to evaluate the portfolio returns over at least a three-year (3) period, but reserves the right to terminate the Investment Manager for any reason.

VI. PORTFOLIO COMPOSITION

A. Statement of Asset Allocation

The Foundation's Board of Directors, and members of the Board's Investment Committee, consistent with the Foundation's investment objectives, have established broad categories of asset classes so as to provide the maximum possible freedom to the Investment Manager, who is required to alter the composition of the investment portfolio in response to changing market conditions or changing Spending Policy.

The Foundation will invest funds for future use in a fiduciary capacity. Due to the uncertainty of the length of time that the Foundation will hold these funds, and the paramount need for safety of principal, up to seventy percent (70%) of the Foundation's investments may be designed to offer liquidity and safety of principal invested in bonds or bond mutual funds, as outlined under "Fixed Income Investments."

Recognizing that some equity component is necessary to protect Foundation assets from the adverse effects of inflation and deterioration of purchasing power, the Committee may invest up to seventy percent (70%) of the cost basis of the Fund in any one of, or a combination of, common or preferred stocks, equity mutual funds and index funds as outlined under "Equity Investments."

Finally, recognizing that placement of funds in a Money Market account, or in other cash equivalents, is necessary to minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment or other expense, the Committee shall transfer funds to short-term, temporary investments on an as-needed basis and as prudence suggests, as outlined under "Money Market and Cash Equivalents."

B. Fixed Income Investments

Foundation funds shall be invested in a diversified portfolio of intermediate and long-term United States Government debt instruments, corporate bonds, certificates of deposit in institutions insured by the Federal Deposit Insurance Corporation (FDIC) and short-term money market funds which are restricted to the purchase of obligations of the United States Government, or mutual funds comprised of any combination of these assets.

The portion of the portfolio which may be invested through the use of individual debt securities or mutual funds of debt securities may be up to seventy percent (70%) of the portfolio. It is expected that a large percentage of single issuer fixed income investments will be rated "A" or better by Standard and Poor's Bond Rating Service or Moody's Investors Service, but will be rated at least investment grade.

For the purpose of providing stable income for the portfolio, the following fixed income securities, subject to prudent credit diversification and marketability guidelines, may be represented in the portfolio: debt instruments issued or guaranteed by the Federal Government, federal agencies government sponsored corporations or agencies, and debt instruments of domestic or foreign corporations including mortgage bonds, convertible or non-convertible notes or debentures and mortgage pass-throughs, issued by industrial, utility, finance o banking corporations.

Debt instruments may cover a full range of available maturities. Except for debt instruments issued or guaranteed by the Federal Government, federal agencies or government-sponsored corporations and agencies, no single debt instrument may represent more than ten percent (10%) of the market value of the portfolio.

C. Equity Investments

The portion of the portfolio which may be invested in individual equity securities or mutual funds of equities may be up to seventy percent (70%) of the entire investment portfolio. The investments are to be diversified in terms of industry, capital size and nation of origin, as wel as conservative in nature and of institutional grade. It is expected that not more than thirty percent (30%) should be in companies not headquartered within the United States.

The decision to choose an individual security, the security size, security quality and the number of industries or holdings is left to the broad discretion of the Manager, subject to conservative standards of fiduciary prudence and the guidelines of the Kean University Foundation. To this end, the Manager is responsible for maintaining a prudent mix of domestic and/or international equities. The Manager, without the prior approval of the Investment Committee, is explicitly prohibited from investing in private placements, letter stock, uncovered options (put or call), or from engaging in short sales, margin transactions or other specialized, speculative investment activities. It is expected that domestic equities in the portfolio be traded on major U.S. stock exchanges as well as the NASDAQ and normally have a minimum market capitalization of $250,000,000. It is expected that international equities in the portfolio be traded on a major equities exchange and normally have a minimum market capitalization of $250,000,000.

The portfolio should be well diversified. The minimum number of securities that are necessary to obtain optimal diversification (i.e., maximizing return given a stipulated variance in cash flow) shall be determined at the discretion of the Manager. Portfolio commitments to a particular industry should normally not exceed twenty-five percent (25%) of the value of the equity holdings of the portfolio for an extended period of time. No single security or single strategy fund should normally exceed ten percent (10%) of the value of the investment portfolio for an extended period of time. No individual security shall represent more than two percent (2%) of the outstanding voting stock/outstanding shares of all classes of stock of the issuer.

Recognizing that the sums devoted to equity investments are likely to be moderate, the Committee shall look first to equity mutual funds as the prime investments for purchasing equities. They offer the advantage of professional management, diversification and reduced transaction costs. Preferably, the Investment Manager shall select funds which have no sales commission, reasonable annual management fees and operating expenses and an established, successful track record in both friendly and hostile market environments.

D. Money Market and Cash Equivalents

From time to time, it may be necessary to invest funds on a temporary basis into short-term money market securities, which historically have produced the lowest return of available investment options. These funds may be invested in money market instruments, commercial paper, repurchase agreements, treasury bills, certificates of deposit, banker's acceptances or money market funds with the intention of providing income, liquidity for expenses and preservation of the fund's principal value. Consistent with this goal, up to one-hundred percent (100%) of the portfolio may be invested in such assets, however, such investments will normally be kept at a minimum level.

By definition, cash and cash equivalents must represent maturities of one-year (1) or less at the time of purchase. The issuer of cash or equivalent items may be the Federal Government, federal agencies which are guaranteed by the Federal Government, corporations which are sponsored or guaranteed by the Federal Government, states or municipalities, banks or other financial institutions. Commercial paper assets must be rated A-1 or P-1 by Standard and Poor's or Moody's, respectively, and money market securities issued by institutions with proven high-quality credit ratings or by pooled funds with demonstrably high-quality credit standards and proven records of superior performance over time. Certificates of deposit must be limited to federally insured certificates of $250,000.00 for any single issue. The Manager may not purchase short-term financial instruments which contain speculative characteristics. The portfolio may not contain more than ten percent (10%) of the fund's market value in the debt instruments of a single issuer except for the Federal Government and its fully guaranteed agencies of corporations. Non-interest-bearing cash reserves shall be held at a minimum.

E. Alternative Investments

"Alternative Investments", as defined for investment purposes, shall include investments that are unregulated and do not fall under the auspices of "The Investment Company Act of 1940" (the "Act"). These investments will include, but are not limited to, Hedge Funds, Real Estate Investment Trusts (REITS) and Commodity Funds. This segment of the Foundation's investments shall not exceed forty percent (40%) of the total portfolio. In the future, subject to Investment Committee review and Board of Directors' approval, this asset category may expand its investment criteria, but at no point shall it exceed forty percent (40%) of total assets of the portfolio.

Consistent with the Foundation's statement of investment objectives, it is expected that the prudent use of "Alternative Investments" should provide the Investment Manager with a useful tool to optimize risk-adjusted returns.

Eligible Investments and Portfolio Diversification

- Money Market & Cash Equivalents up to one-hundred percent (100%)
- Debt Instruments and Bond Mutual Funds up to seventy percent (70%)
  - No single issuer greater than ten percent (10%)
  - All single issuer investments will be at least investment grade with a large percentage rated "A" or better
- Equity Securities & Equity Mutual Funds up to seventy percent (70%)
  - No industry concentration greater than twenty-five percent (25%)
  - No single issuer or single strategy fund greater than ten percent (10%)
  - No foreign investments greater than thirty percent (30%)
- Alternative Investments up to forty percent (40%)

VII. GIFTS OF SECURITIES

Normally the Committee will dispose of all securities received as gifts within ninety (90) days of receipt if the stocks, bonds or funds do not conform to these Policy guidelines (unless otherwise negotiated with a donor), or in instances where the gift is in securities already held in the Foundation's portfolio. To facilitate the disposition of securities received as gifts, the Chief Executive Officer of the Foundation is hereby fully authorized and empowered to transfer, endorse, sell, assign, set over and deliver any and all shares of stock, bonds, debentures, notes, evidences of indebtedness or other securities in the name of or owned by the Foundation, and to make, execute and deliver any and all written instruments necessary or proper to effectuate the authority hereby conferred.

VIII. COMMUNICATIONS

The following specific communications are required by the Foundation to maintain an awareness of the investment activities of the Investment Manager and the performance of the Foundation's financial assets.

A. Written Communications. The Manager shall provide quarterly reviews of the performance of the portfolio, including a market update on equity and debt market conditions, market values on all equity instruments debt instruments and cash equivalents, as well as the rate of return on the portfolio measured on a time-weighted basis. Quarterly reports will be provided by the Manager with a total return net of fees indicated. Performance should include performance for the Quarter, Year-to-Date, One-Year (1), Three-Year (3) and Five-Year (5) time periods (when available), and should also include the contributions and withdrawals during that quarter including Investment Manager fees as well as beginning and ending values for the quarter.

B. Meetings. The Manager will meet with the Investment Committee and/or Board at least two (2) times per year to discuss the performance of the portfolio, Spending Policy and funding requirements, past and anticipated changes in strategy, as well as other pertinent matters. Regular conference calls with the Foundation's Chief Executive Officer should occur bi-monthly or as needed given market volatility.

C. Financial Information. All of the Investment Managers shall provide the Foundation, on an annual basis (or more frequent if requested), pertinent financial information such as audit reports, FOCIS reports and/or financial statements.

IX. POLICY REVIEW AND AMENDMENTS

It shall be the responsibility of the Investment Committee to review this Policy and regularly evaluate its content for effectiveness. This Policy may be changed at any time by a majority vote of the Foundation's Board of Directors.

X. CONCLUSION

This statement of Investment Policy is designed to be used as a guideline to assist the Board of Directors, the Investment Committee and the Investment Manager. It should not be considered a legal document or contractual obligation. It should be viewed as a flexible document whose purpose is to assist all parties in the management of the Foundation's assets.

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Kean University Foundation

1000 Morris Avenue • Union, New Jersey 07083

908-316-8920

kuf@keanfoundation.org