

NON-ENDOWED ASSETS INVESTMENT POLICY

Policy Owner:	Finance and Administration
Category:	Finance and Administration
Applies to:	All staff
Approved by:	Board of Directors (Committee: Investment)
Effective Date:	Approved by Investment: November 17, 2021 Proposed to Board: November 17, 2021
Contact:	Senior Vice President of Finance and Administration and CFO
Official Website:	www.foundation.uconn.edu/policies
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I. Introduction

This Non-Endowed Assets Investment Policy (“Policy”) establishes the investment policies, objectives, and operating practices for the Non-Endowed Assets (the “Fund”) of The University of Connecticut Foundation, Inc. (“Foundation”). Non-Endowed Assets primarily include:

1. Private donations which are donor designated as fully spendable for the donor provided intention;
2. Spending allocations generated from the endowment; and
3. Foundation reserves

These assets are callable at any time to support scholarships, faculty, programs and operations for the University of Connecticut (the “University”) and the Foundation. As provided in the annual Statement of Work between the University and Foundation, the Foundation retains all investment earnings on non-endowed assets. In general, the Fund will be invested in liquid strategies to meet cash requests from the University or Foundation, although the Fund may also invest in a limited number of less liquid Strategic Investments, as described herein, to enhance returns and/or mitigate risk.

The investment of the Fund must preserve the capital for donor-intended purposes. Consideration may also be given to the need to generate Income (as defined below) to sustain

the Foundation's budget, provided that this objective is accomplished via a prudent, diversified asset allocation.

The Income for the Non-Endowed Assets portfolio is the combination of interest income, dividend income and realized gains and losses on sales of investments. Interest and dividend income and realized gains and losses are as defined by generally accepted accounting principles (GAAP) as used in the United States of America.

Return Objective

The Fund has a return objective of providing investment returns above those available from treasury bills and short-maturity bonds, with a long-term target return (net-of fees) in excess of the "Benchmark". The Benchmark for the total portfolio shall be defined as a blend of:

70% ICE BofA 1-3 Year Government Credit Index (B1A0)

30% ICE BofA BB-B US Cash Pay High Yield Constrained Index (JUC4).

The guidelines of the Fund have been structured in a manner to allow the Investment Managers (as defined below) to strive to meet the income requirements of the Foundation and appreciation of assets.

Risk Tolerance

The Fund seeks to attain a risk level (as measured by ex-post standard deviation over a rolling five-year period) at or lower than the Benchmark. The Investment Committee understands that in some periods the risk level will be greater than the Benchmark, and in some periods it will be less.

The Investment Committee may consider any risk management strategies to reduce volatility and protect portfolio valuation.

Other Factors

- All investments and strategies pursued by the Investment Committee and any Investment Managers will be completed with consideration of the following factors:
 - (1) General economic conditions; (2) the possible effect of inflation or deflation; (3) the expected tax consequences of investment decisions, strategies and distributions; (4) the role that each investment or course of action plays within the overall portfolio, which may include financial assets, interests in closely held enterprises,

tangible and intangible personal property and real property; (5) the expected total return from income and the appreciation of capital; (6) needs for liquidity, for regularity of income and for preservation or appreciation of capital; (7) the size of the portfolio; and (8) Environmental, Social, and Governance (“ESG”) and Socially Responsible Investment (“SRI”) principles (as further described in the Foundation’s Commitment to Responsible Investing in the Financial Information section of the Foundation’s website, as may be updated from time to time).

II. Duties and Responsibilities

Investment Committee:

The Foundation Board of Directors (the “Board”) has fiduciary responsibility over the management of assets invested in the Fund and developing all related investment policies. As described below, the Board delegates to the Investment Committee the selection of investments to be made in a manner consistent with this Board-approved Policy and any other policies as may be adopted from time to time.

- The Investment Committee may recommend to the Board the designation of one or more agents or consultants (“Advisor/Consultants”) to assist in investment manager searches, policy development, and monitoring investment performance and investment policy compliance. Should the Board elect to delegate the management of the Fund to an Advisor/Consultant, it shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, in selecting any Advisor/Consultant; establish the scope and terms of the delegation, consistent with the purposes of the Foundation and the Portfolios; and periodically review the Advisor/Consultant’s actions in order to monitor its performance and compliance with the scope and terms of the delegation. In performing a delegated function, an Advisor/Consultant owes a duty to the institution to exercise reasonable care to comply with the scope and terms of the delegation.
- The Investment Committee selects investment managers, vehicles, and instruments consistent with Policy, and has authority to retain and/or replace investment managers and to control the asset allocation as long as it remains within approved limits.
- The Investment Committee shall recommend for Board approval revisions to this Policy. This includes, but is not limited to, selection of acceptable asset classes, allowable ranges of holdings by asset class and individual investment managers as a percent of

assets, the definition of acceptable securities within each asset class, and investment performance expectations.

- The Investment Committee will communicate the Policy and performance expectations to the investment managers. The Investment Committee will also review investment performance at least quarterly to assure that the Policy is being followed and that suitable progress is being made toward achieving the objectives.

Investment Managers:

The Investment Managers shall be responsible for determining investment strategy and implementing investment selection and the timing of purchases and sales within the Policy guidelines set forth in this statement, and as otherwise provided by the Investment Committee.

- The Investment Managers are responsible for monitoring and positioning the portfolio on a daily basis within policy guidelines.
- In the event that there is a material concern with the credit or investment quality of the Fund, the Investment Committee Chair, after consultation with at least one other Investment Committee member and the Chair of the Finance Committee, is authorized to recommend action to control losses by directing the Investment Managers to partially or fully liquidate any holdings of concern up to, but not exceeding, 10% of the cost basis of the value of the Fund at the time of the liquidation. This 10% limit will be reset after each Investment Committee meeting, during which any such actions taken during the previous period must be communicated to the Investment Committee. In times of market stress or dislocation, the Investment Committee Chair, after consultation with at least one other Investment Committee member and the Chair of the Finance Committee, is authorized to exceed this 10% limit and shall communicate such action to the full Investment Committee as soon as practicable.

III. Investment Fund Structure:

The Fund may be invested in two separate portfolios, the Fixed Income Portfolio and the Strategic Investments Portfolio, as defined in the following two sections:

1. Fixed Income Portfolio

Asset Allocation:

The assets are to be primarily invested in short-to-intermediate duration fixed income securities under normal market conditions.

A minimum of 2% Cash Equivalents must be held in the portfolio at all times, with a maximum of 20% in Cash Equivalents allowed.

Objectives and Guidelines:

Return Objectives:

The fixed income assets in the portfolio shall be managed with the objective of generating a net-of-fee return in excess of the Benchmark.

Risk Tolerance:

The portfolio is expected to be managed in a prudent manner with regard to capital preservation while pursuing returns in excess of the benchmark, meeting liquidity needs and providing a steady flow of interest income, dividends and realized gains.

Fixed Income Guidelines and Constraints:

A. Credit quality:

- Minimum Weighted Average Portfolio Quality: BBB (S&P), Baa2 (Moody's), BBB (Fitch) or BBB (Kroll)
- Minimum credit quality at time of purchase: CCC (S&P), Caa2 (Moody's), CCC (Fitch) or CCC (Kroll), provided that at no time shall securities rated below B-/B3 exceed 5% of the portfolio. In the event that a security is downgraded below CCC-/Caa3, the Investment Managers shall notify the Investment Committee Chair and provide their hold/sell recommendation, assessing market conditions with the objective of optimizing recovery value. The Investment Committee Chair shall promptly consider such recommendation and, after consultation with at least one other Investment Committee member and the Chair of the Finance Committee, direct the Investment Managers accordingly.
- At no time should the total of all securities in the portfolio which were rated only by Kroll exceed 2% of the portfolio.

- In the absence of a security rating, the issuer's own credit rating will apply, but in such event such securities will not exceed 5% of the portfolio.
- In case of split ratings, the lowest rating shall apply.
- The portfolio should follow the credit limits set forth below:

Credit Ranges	Minimum	Maximum
US Government Securities	5.0 %	100.0 %
Investment-Grade Securities	0.0	100.0
Below Investment-Grade Securities	0.0	50.0
Below B-/B3 Securities	0.0	5.0

B. Duration / Maturity:

The portfolio shall maintain a duration of no longer than 3.25 years.

C. Permitted Securities:

- Fixed-income instruments of U.S. and non-U.S. issuers, such as:
- Obligations of Governments or their agencies, including (a) developed and (b) developing and emerging market countries;
- Securities guaranteed by such Governments or their agencies;
- Obligations of Supranational entities;
- Corporate securities, including covered bonds and convertible securities;
- Mortgage-backed securities;
- Asset-backed securities;
- Real Estate Investment Trust (REIT) debt obligations;
- Preferred stock, including Bank Trust Preferred stock, up to a maximum of 15% of the portfolio;

- Bank loans;
- Money-market instruments, including repos, certificates of deposits and commercial paper;
- Obligations of state/province and local jurisdictions of U.S. and other countries;
- Commingled funds advised by the manager that invest in securities that are substantially consistent with these guidelines;
- Financial derivative instruments, such as forwards (including currency forwards), futures, options, and swaps, to be utilized for hedging, yield curve management, and efficient market exposure; and
- Rule 144(a) securities or Reg S securities, as appropriate, and 4(2) commercial paper.
- Investments shall not be made in securities of the Foundation, its subsidiaries, or its affiliates.
- Any other fixed income securities whose risk characteristics are consistent with benchmark securities.

D. Diversification guideline at time of purchase:

Except for US government or agency securities, no more than 3% of the portfolio's market value will be invested in securities of any single issuer.

E. Liquidity:

The portfolio shall maintain sufficient liquidity such that it could be fully liquidated at reasonable transaction costs within 5 days under most market environments.

2. Strategic Investments Portfolio

Background:

- The Investment Committee is authorized to approve a limited number (up to 20% of the Fund's market value at the time of investment) of Strategic Investments to be funded from non-endowed assets. These investments are expected to be diverse in nature and highly idiosyncratic in their risk and return drivers.
- While traditional risk metrics are not likely to be applicable to most Strategic Investments, the Investment Committee will consider all such Investments on a risk-adjusted return basis and review all potential risks that can reasonably be expected to affect the outcome of the investment. Additionally, Strategic Investments will be made with consideration of the needs of the Foundation and University and their overall impact on the UConn Foundation's budget, while being mindful of the Foundation's need to preserve capital. Budget impact considerations may include costs such as operational burden, reporting costs, and deal structuring costs.

Risk Considerations:

- The Investment Committee will only approve Strategic Investments that are believed to exhibit a risk-return profile that exceeds that of the Fixed Income portfolio.
- Investment and management decisions with respect to individual assets shall be evaluated not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the funds.

Limitations:

- Strategic Investments may include any investments that the Investment Committee has deemed suitable for the Long-Term Endowment Investment Portfolio in accordance with the Foundation's *Statement of Investment Policy and Objectives for Assets Invested in the Long-term Investment Portfolio*.
- Approval of any investments for inclusion in the Strategic Investment Portfolio will require a 2/3rds majority of all present voting members of the Investment Committee.

IV. Effective Date

This Policy is effective immediately and replaces and supersedes any preceding policy concerning this subject matter. This Policy shall be reviewed regularly by the Investment Committee and may be altered or amended at any time upon recommendation of the Investment Committee with the approval of the Board of Directors of the Foundation.