



**ONEILL**  
STUDENT INVESTMENT FUND

## **INVESTMENT POLICY STATEMENT**

Amended Dec 2020

<https://oneillfund.org/>

## **TABLE OF CONTENTS**

- I. Purpose of Investment Policy Statement
- II. Definition and Function of Investment Policy Statement
- III. Objectives of Fund Assets
- IV. Investment Board Guidelines and Restrictions
- V. Definitions of Asset Classes for Investments and Benchmarks
- VI. Target Asset Allocation and Operating Ranges
- VII. Portfolio Benchmarks
- VIII. Spending Policy

# **I. Purpose of Investment Policy Statement**

The purpose of this Investment Policy Statement (“IPS”) is to codify the policies that will govern the investment program and the management of investment assets of the O’Neill Student Investment Fund (the “Fund”) for the Fall Semester of 2020.

The Fund’s objective is to create an opportunity for students to explore investing in financial markets and to maintain scholarship opportunities. The aim will be to deliver strong risk-adjusted returns. The Fund student investors should consider such factors as the effects of inflation or deflation, general economic conditions, total returns, and the role that each investment or course of action plays within the overall portfolio. The IPS establishes investment guidelines to ensure the Fund assets are managed according to the Fund’s objectives.

The Board shall use the IPS as a framework for decisions concerning the Fund’s assets and distributions. The investment objectives and asset allocation reflect the board’s current attitudes regarding the Fund’s portfolio. The IPS is reviewed periodically to ensure that it reflects the expectations and goals set forth for the Fund.

# **II. Definition and Function of Investment Policy Statement**

In recognition of their fiduciary responsibilities, the Board has adopted the IPS to:

- Set forth the Fund’s expectations, objectives, and guidelines for the investment of all assets.
- Outline an investment structure for managing all assets, including various asset classes, target asset allocations and ranges, and investment management styles that, in total, have a reasonable likelihood of producing a sufficient level of overall diversification and total risk-adjusted investment return over the long-term.
- Provide guidelines for the investment portfolio that may control the level of overall risk and liquidity assumed in the portfolio so that all assets are managed by the stated objectives.

- Establish criteria to monitor and evaluate the investment performance results achieved by the various investments.
- Shall make every attempt to comply with applicable fiduciary requirements that experienced investment professionals would use and with laws and regulations applicable to the management of the Fund's assets.

### III. Objectives of Fund Assets

The broad goal and objective of the Fund is to ensure the growth of Fund assets prudently. Investment of Fund assets will be made for the sole interest and exclusive purpose of providing benefits to participants. The Fund policy shall match the periodic disbursements required to the financial assets most likely to meet those cash flow needs. The best way to minimize investment risk is to diversify the portfolio and retain a percentage of cash assets equal to the periodic distribution.

In managing and investing the Fund's assets to achieve the investment objective, the Board and the Student Investment Team will consider the following factors in the context of the Fund's entire portfolio 1): the possible effect of inflation or deflation; 2) general economic condition; 3) the role that each investment or course of action plays within the overall investment portfolio of the Fund; 4) the expected total return from income and the appreciation of investments; 5) other resources of the institution; and 6) the needs of the institution and the Fund to meet liabilities and to preserve capital.

*The specific objective of the Fund in terms of the investment return of Fund assets is defined as follows:*

**Relative Returns:** Relative returns will compare the time-weighted total return versus capital market indices. Capital market indices will be blended to create indices that better represent the Fund's allocation. The time horizon for the objective is intermediate long-term and is measured over rolling 3-year and 5-year periods.

## IV. Investment Board Guidelines and Restrictions

The Student Investment Team will have full discretion to make all investment decisions for the assets while observing and operating within all guidelines, constraints, and philosophies outlined in the IPS.

### **The Student Investment Team shall generally *not*:**

- Make an investment, which may be precluded by any special instruction issued in writing from time to time by the Board.
- Make investments that might generate unrelated business taxable income (UBTI) Hold options, futures, and leverage for separate accounts.
- Hold leveraged ETF's.
- Hold futures, options or ETF's that rely exclusively on options.

### **Stock and Industry Restrictions**

The Student Investment Team determined environmental, social, and governance issues (ESG) should not restrict investing in specific industries and companies. Overall, it was determined that while ESG factors are important, the Student Investment Team has a fiduciary responsibility to maintain the full opportunity set of investment options. The Student Investment Team wanted to learn and invest in various industries and companies, thus potentially limiting the learning opportunities.

However, if individuals have strong feelings against a stock for moral and ethical reasons, they are encouraged to raise those concerns in the due diligence process.

## **Rebalancing Requirement:**

### *When Students Are Not In Session*

The portfolio should be rebalanced when students are not in session to approximately:

- 60% stocks
- 35% bonds
- 5% cash

The asset allocation approach allows the portfolio to capture the positive skew in the distributions of returns for stocks and bonds and manages to an acceptable level of risk given the portfolio's long-term nature.

Student investors are encouraged to rebalance the equity and bonds to diversified index funds (e.g. SPY for stocks and AGG for bonds). Sector funds and individual stocks can be used if the students deem them to have upside potential and do not create excessive concentration risks.

**Limits on sector funds and individual stocks should be 15% and 15% of the portfolio value during out of session periods (a maximum of 5% allocation to each stock position to maintain adequate diversification).**

## **V. Risk Tolerance**

As the purpose of this fund has historically been used to provide scholarship opportunities to future generations of AGSM Students, the amount of risk assumed in investments should be limited. This tolerance will be reflected in the weighting of asset allocation. This risk tolerance level is based on the following drivers, including general market and 2020 specific phenomena.

- Cash payout requirements. As this fund provides the cash used in AGSM scholarships, tolerance for any level of losses is limited.
- Non-Professional management. This fund serves the additional purpose of being an educational instrument. Higher risk assets should be avoided as the Student

Investment Team may not have enough specific knowledge to assess risk-reward potential properly.

## V. Definitions of Asset Classes for Investments and Benchmarks

The following asset classes are deemed suitable for investment by the Fund by the long-term asset allocation policy. We define the asset class benchmarks below.

<b>Asset Class</b>	<b>Benchmark</b>	<b>Definition of Benchmark</b>
<b>Cash and Cash Equivalents</b>	Citigroup Three-Month US Treasury Bill Index	The Citigroup 3-Month T-Bill is an unmanaged index that is generally representative of 3-month Treasury bills and consists of an average of the last 3-month U.S. Treasury Bill issues.
<b>Investment Grade Fixed Income</b>	Barclays Capital U.S. Aggregate Bond Index	The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.
<b>High Yield Corporates</b>	Barclays Capital U.S. Corporate High-Yield Bond Index	The U.S. Corporate High-Yield Bond Index covers the USD denominated, non-investment grade, fixed-rate, and taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes Emerging Markets debt.
<b>Non-US Fixed Income</b>	Barclays Capital Global Aggregate ex-US Index	The Global Aggregate ex-U.S. Index is a sub index of the Global Aggregate Bond Index, which contains the U.S. Aggregate, the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government and agency and corporate securities.
<b>Equity</b>	MSCI ACWI	The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

<b>US Large Cap Equity</b>	Russell 1000 Total Return Index	The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.
<b>US Small/Mid Cap Equity</b>	Russell 2500 Total Return Index	The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership.
<b>Developed International Equities</b>	MSCI-EAFE Total Return Index	The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada.
<b>Emerging Markets Equities</b>	MSCI Emerging Markets Index	The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
<b>Public Real Estate</b>	NAREIT Equity Index	The FTSE NAREIT REIT Index measures the performance of all publicly traded equity real estate investment trusts traded on U.S. exchanges. NAREIT is the National Association of Real Estate Investment Trusts®. It is the trade association for REITs and publicly traded real estate companies with an interest in the U.S. property and investment markets. Members are REITs and listed companies that own, operate and finance income producing real estate, as well as those firms and individuals who advise, study and service these businesses.
<b>Commodities</b>	Dow Jones UBS Commodity Index	The Dow Jones-UBS Commodity Index is composed of futures contracts on physical commodities. The index is composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The index is designed to be a highly liquid and diversified benchmark for commodities investments. To ensure that no single commodity or commodity sector dominates the index, the index relies on several diversification rules. Among these rules are the following: no related group of commodities (eg., energy, precious metals, livestock or grains) may constitute more than 33% of the index. Also, no single commodity may constitute less than 2% of the index. The diversification rules are applied annually when the index is reweighted and rebalanced on a price-percentage basis.
<b>Private Equity</b>	Thomson Private Equity Index	The ThomsonOne Private Equity Index is a capitalization weighted composite IRR of the buyout, venture, and special situations fund performances reported to Thomson; all historical IRRs are subject to, and regularly undergo, revision.



## VI. Target Asset Allocation and Operating Ranges

Fund assets should be properly diversified across various asset classes as mentioned earlier. Significant input should come from the Fund's current market value, long-term liability projections, and anticipated upcoming spending. The general policy should diversify investments among equity and fixed income securities to provide a balance that will enhance total return while avoiding undue risk in any single asset class or investment category. This model portfolio may change from time to time based on the Student Investment Team's forward-looking market views.

<b>Asset Allocation Ranges</b>		
	Min	Max
US Equity	30%	75%
International Equity	3%	15%
Emerging Market Equity	0%	15%
Marketable Alternatives (MALTs)*	3%	15%
Fixed Income	20%	50%
Money Market Funds	5%	15%
*MALTs include: REITs, Commodities, Gold, Currencies.		
**Individual stocks max allocation is 15% of total capital (5% to each position).		
***20% of equity allocation should be considered 3-5 year holds.		
****The board recognizes early in a term the portfolio may be out of compliance temporarily while the student investors are rebalancing and reposition the portfolio.		

## VII. Portfolio Benchmarks

**Absolute Return:** Actuarial rate of return as determined by the Fund actuary measured over a full market cycle

**Relative Returns:**

***Standard Benchmark:***

40.0% Barclays Capital Aggregate Index, 57% MSCI All-Country World Index, and 3% HFRI FoF Composite Index

***Policy Index:***

35.0% Barclays Capital Aggregate Index, 5.0% Barclays Capital US Corporate High Yield Bond Index, 23.0% Russell 1000 Index, 8.0% Russell 2500 Index, 15.0% MSCI EAFE Index, 7.0% MSCI Emerging Markets Index, and 3% DJ-UBS Commodity Index

***Style-Weighted Index:***

Weightings for this index will approximate the respective manager weightings and are rebalanced periodically

## VIII. Spending Policy

The Fund will not have a formal spending policy or fixed spending policy schedule. Fund assets may be held in cash to meet the upcoming payments up to one year in advance. The cash account should serve as the vehicle for making payments. The cash account will be replenished with fixed income assets to mitigate the effects of market timing.

# Historical amendments

## Dec 2020

At the board's request we added asset allocation recommendations when students are not in session. Highlights are: Portfolio should be rebalanced to a 60/40 asset allocation. 15% max allocation to sector funds and 15% to separate stocks.