



**WELLESLEY COLLEGE INVESTMENT COMMITTEE
STATEMENT OF INVESTMENT OBJECTIVES,
INVESTMENT POLICIES, AND
OPERATING GUIDELINES**

May 2003

**Revised July 2007, June 2009, April 2010,
December 2010, December 2011, December 2012**

- I. Introduction**
- II. Investment Objectives**
- III. Investment Policies**
- IV. Operating Guidelines**
 - A. Investment Committee**
 - B. Investment Office**
 - C. Investment Managers**

Attachments

- A. Policy Portfolio**
- B. Investment Office Staff Disclosure Form**
- C. List of Wellesley College Investment Relationships**



**STATEMENT OF INVESTMENT OBJECTIVES,
INVESTMENT POLICIES, AND
OPERATING GUIDELINES**

I. Introduction

Wellesley College is fortunate to have a significant endowment to support the pursuit of its educational mission today, and ideally, over the long-term. The endowment plays a critical role in the current operation of Wellesley College, as endowment spending covers over 40% of the College's annual education and general expenses. In addition, the future of the College will be shaped to a large extent by the availability of the endowment to support future operations, capital projects and new initiatives.

Given the dual financial demands of current times and the future, the Wellesley College endowment must be managed for long-term growth, but with constant attention to risk control, and with consideration for the need for annual spending. The balance of growth and risk in the investment portfolio, and the allowable spending rate, will be continually monitored and assessed by the Investment Committee on behalf of the Trustees.

II. Investment Objectives

The Wellesley College endowment portfolio should be invested with the following objectives:

- A. Preserve the purchasing power of the endowment over the long-term so that it may provide ongoing support of the operating budget in real terms and also provide for opportunities for real growth. Expected long-term average investment returns should, therefore, meet or exceed the level of higher education inflation.
- B. Manage risk through diversification across asset classes and through constant, rigorous review of investment strategies and managers across and within asset classes.
- C. Utilize a combination of investment management strategies that are likely to outperform the broad public markets and the average endowment over 10-20 years.
- D. Maintain adequate liquidity to meet the College's endowment draw.

III. Investment Policies

A. Policy Portfolio

A Policy Portfolio will be set by the Investment Committee, on the recommendation of the Investment Office, which will serve as a guide for the actual allocation of assets by the Investment Office. The Policy Portfolio will be reflective of the investment objectives stated above. The Policy Portfolio will be reviewed, at a minimum, on an annual basis, and adjusted as needed but will be considered a long-term plan and so not altered lightly (see attached Policy Portfolio). The Investment Office is given latitude to allocate assets to each asset class in a range around the Policy Portfolio allocation. Allowable ranges will be approximately +/- 5-10% around the policy target for each asset class.

B. Benchmarks

Each asset class in the Policy Portfolio will be assigned a benchmark, which reflects the neutral (index) market return associated with that asset class. Benchmarks will be approved by the Investment Committee and reviewed at least annually. The investment performance of the Policy Portfolio during a given period will serve as a benchmark for the overall endowment investment performance. The Policy Portfolio investment return will be equal to the weighted average returns of the asset class benchmarks during that period. (See Benchmarks attached to Policy Portfolio).

C. Spending

Spending from the endowment is governed by the College's spending policy. The spending policy is set and reviewed by the Finance Committee and the Investment Committee, and approved by the Trustees. The annual budget process includes a review by the Finance Committee to ensure that the proposed budget is in adherence with the spending policy. The Finance Committee and the Investment Committee share responsibility for the regular review of the Spending Policy to ensure that it continues to provide the right level of support to the College's current and future operations.

D. Leverage and Derivatives

The Investment Office may from time to time enter into derivatives arrangements utilizing the services of a retained derivatives manager. In cases when futures are employed to synthetically replicate market exposures, positions will be 100% collateralized by cash or cash equivalents. Required margin amounts will be held in an account at the executing brokerage firm and any difference in notional market exposure and margin deposit will be held in a dedicated account at Wellesley's custodian bank and invested in a short-term cash vehicle. The use of futures contracts in the Wellesley endowment will not create leveraged market exposure.

E. Hedging

The Investment Office, with the approval from the Subcommittee on Portfolio Hedging, may from time to time enter into portfolio level hedges intended to address macro or portfolio level risks. Such hedges are expected to be episodic and tactical in nature and considered as a form of insurance against market developments. The Investment Office will utilize the services of a retained manager to implement such hedges. The Investment Office will work with the retained manager to negotiate and implement agreements with counterparties as needed.

F. Borrowing and Operations Settlements

The Investment Office may from time to time defer payment of the monthly settlement with operations. In circumstances in which such a deferral is deemed prudent (e.g. a series of large unexpected capital calls), Investment Office staff will work with the Controller's Office on the payment deferral and cash movement strategy. In such cases, the endowment will pay a market rate of interest to the operating cash account at time of settlement.

IV. Operating Guidelines

A. Operating Guidelines for the Investment Committee

The Investment Committee of Wellesley College is a sub-committee of the Board of Trustees, and as such it provides the Trustees with assurance that there is appropriate strategy, oversight and guidance employed in the investment of the endowment portfolio.

The Committee will:

1. Set long-term asset allocation targets through establishment of the Policy Portfolio; approve changes to asset allocation targets and allowable ranges.
2. Review and approve benchmarks.
3. Review investment performance of the endowment portfolio and the policy on, at least, a quarterly basis.
4. Assess the performance of the Investment Office, including an annual performance review of the CIO.
5. Report to the Trustees regarding items (3) and (4) above.
6. Encourage the continuous review of new asset classes, strategies and managers on the part of the Investment Office.
7. Approve new asset classes.
8. Review the hiring and termination of investment managers made by the Investment Office.
9. Approve Investment Office budget and compensation structure.

10. Along with Finance Committee, review the terms of the College's Spending Policy and the maximum allocation of endowment assets to the Faculty Mortgage Program.
11. Ensure that the College votes its proxies in accordance with Wellesley College's ethical and moral standards (through the Subcommittee on Proxy Voting).
12. Monitor hedging activity made by the Investment Office.

Individual Committee members will participate on the Investment Committee with Wellesley College's best interests always in mind and with an awareness of the need to manage personal conflicts of interest, or appearances of conflicts of interest, in an active way. Toward this end, Committee members will:

1. Report conflicts of interest promptly to the Investment Office and or the Office of Trustees as appropriate. A disclosure form will be circulated to all Investment Committee members annually from the Presidents Office and should be completed and returned for review. The CIO and the Investment Committee Chairperson will discuss any meaningful conflicts of interest with the Trustee Chairperson and may, on occasion, ask conflicted Investment Committee members to recuse themselves from certain Investment Committee discussions and decisions. Conflicts of interest will be defined as:
 - a) personal, business* or trust investments with the same managers as those used in the Wellesley endowment account,
 - b) personal or business* relationships with current or potential managers or professional services firms not disclosed in (a), and
 - c) any potential personal or immediate family benefit that may accrue through a specific investment made or contemplated by Wellesley College.

**A business relationship is one where there is the potential for economic gain. Service on a not-for-profit Board or Investment Committee will not normally be considered a business relationship. Wellesley Investment Committee members who serve on other not-for-profit Investment Committees or Boards do not need to disclose those memberships or the investment management relationships of those organizations.*

If a new conflict of interest arises during the course of a year due to a new outside manager hire or a new personal account with one of the College's current managers, the Investment Committee member is obligated to provide written notice of the conflict to the Investment Office and the Office of Trustees. This written notice will be reviewed as above.

2. Maintain confidentiality of proprietary Wellesley-related investment information. Refrain from circulating or re-using written due diligence or investment-related information received from the Investment Office or any of the College's current or potential investment managers.
3. Provide advice, input and guidance to the Investment Office on all appropriate matters related to the management of the Wellesley College endowment.
4. Attend the majority of Investment Committee quarterly meetings and contribute productively to Committee discussions.

B. Operating Guidelines for the Investment Office

The Investment Office is employed by the Investment Committee for the purpose of executing investment strategy and tactics for the Wellesley College endowment that will lead to strong investment performance which will enable the College to meet its goals. In addition, the Investment Office is responsible for actively monitoring and managing the outside managers Wellesley College uses in its investment portfolio. The Office will be expected to:

1. Recommend long-term asset allocation targets, allowable ranges and a Policy Portfolio to the Investment Committee.
2. Recommend benchmarks for each asset class and track the performance of the benchmarks.
3. Monitor and report the investment performance of the endowment portfolio and the policy to the Investment Committee.
4. Assess the performance/risk of both the investment management firms employed by Wellesley College and of potential new managers.
5. Explore new asset classes and recommend strategies for those that are potentially attractive additions to the portfolio.
6. Hire and terminate investment managers. Whenever possible, a memo outlining the rationale for a change in managers will be circulated to the Investment Committee via email prior to any action being taken with enough time for questions and feedback.
7. The CIO will report all hedging activity taken by the Investment Office and reviewed by the Subcommittee on Portfolio Hedging to the entire Investment Committee.
8. Monitor actual asset allocation and rebalance portfolio within allowable ranges.
9. Recommend changes to asset allocation targets and allowable ranges.
10. Develop the Investment Office annual budget.
11. Maximize the cost efficiency of managing the Wellesley College endowment through negotiation of investment manager and service provider fees and through operational improvements.

12. Minimize the operational risk to Wellesley's assets through attention to details of manager contracts, bank contracts, systems and files/records related to the endowment account.
13. Retain and hire appropriate staff to accomplish objectives, provide staff with feedback and professional growth opportunities and annual performance reviews.
14. Prepare materials for and coordinate scheduling of Investment Committee meetings.
15. Work with other College departments on topics related to the endowment and financial health of Wellesley College: e.g., debt policy, faculty mortgage, cash management, spending, etc.
16. Work with the Finance Office and outside auditors to maintain the proper level of controls regarding the operation and safe keeping of the College's financial resources, including records of cash movements in and out of the endowment, auditable calculations of investment performance and endowment account values, and files on outside investment managers employed. These controls and procedures should be reviewed periodically by the College's outside auditors.
17. Report Wellesley College investment portfolio performance to outside, higher-education research groups only as appropriate (e.g., Cambridge Associates, NACUBO) and only after Investment Committee has received such information.

Individual Investment Office employees will always bear in mind the need to manage personal and professional conflicts of interest or the appearance of conflicts of interest in an active way. Individual staff members will:

1. Report conflicts of interest promptly to the Investment Office and Investment Committee. A sample Investment Staff Disclosure Form is attached to this document. The form will be circulated to all Investment Staff annually, and/or upon hire, and should be returned to the Director, Investment Operations for review. The Director, Investment Operations, CIO, and the Investment Committee Chairperson will discuss any meaningful conflicts of interest with the Trustee Chairperson and may, on occasion, ask Investment staff to take action, or refrain from taking action, to remove any possibility of actual or perceived conflict of interest. Conflicts of interest will be defined as:
 - a) personal, business*, or trust investments with the same managers as those used in the Wellesley endowment account,
 - b) personal or business* relationships with current or potential managers or professional services firms,
 - c) any potential personal or immediate family benefit that may accrue through a specific investment made or contemplated by Wellesley College.

**A business relationship is one where there is the potential for economic gain. Service on a not-for-profit Board or Investment Committee will not normally be considered a business relationship, however, Investment Office staff, in contrast*

to Investment Committee Members, will be expected to disclose non-Wellesley non-profit and for-profit Board and Investment Committee memberships on their annual Disclosure Forms (See (3) below and Staff Disclosure Form attached).

If a new conflict of interest arises during the course of a year due to a new outside manager hire or a new personal account with one of the College's current managers, the Investment Staff member is obligated to provide written notice of the conflict to the Director, Investment Operations. This written notice will be reviewed as above and attached to the Disclosure Form on file for that member.

2. Maintain confidentiality of proprietary Wellesley College-related investment information. Refrain from circulating or re-using written due diligence or investment-related information received by or generated by the Investment Office or any current or potential investment managers.
3. Disclose membership on all boards, advisory boards, and investment committees whether related or unrelated to Wellesley College's investment portfolio – as needed and annually. The Investment Committee must approve participation on for-profit boards. Staff who are on Investment Committees or not-for-profit Boards should disclose those memberships but do not need to disclose the specific investment management relationships maintained by those not-for-profit organizations.
4. Refrain from participation in all Investment Clubs, due to the possible appearance of conflict of interest.
5. Report all personal and immediate family investments (other than mutual fund holdings) - disclose positions in all public securities and private investments or partnerships and whether staff member has a controlling interest. If public securities held by staff or family overlap with securities that may be traded by Wellesley College internally (venture capital and private equity distributions or stock gifts), staff must refrain from trading until Wellesley College has exited the position in its entirety. This disclosure will be made annually to the Director, Investment Operations through the attached Staff Disclosure Form. All new investments made in publicly traded securities in the staff member's or family member's personal portfolios are required to be precleared by the Director, Investment Operations or CIO prior to trade execution. Preclearance procedures pertain to accounts over which staff have discretion and do not apply to accounts in which investment discretion has been delegated to an outside investment manager.
6. Refrain from investing in IPOs without prior approval and documentation of that approval from the CIO. This trading restriction pertains to accounts which staff have discretion over and does not apply to accounts in which investment discretion has been delegated to an outside investment manager.

7. Refrain from reporting on or commenting on any individual investment holdings outside of the Investment Committee.

C. Operating Guidelines for Investment Managers

Operating Guidelines for investment managers will be tailored to each manager and the manager's specific mandate and will be an important element in every investment management contract. Some overall principles will be addressed in each of these contracts, including:

- firm's needs to comply with all applicable securities laws and with highest ethical standards (including disclosure of each firm's own conflict of interest policies)
- fees
- allowable securities
- benchmark
- reporting and transparency requirements
- key man provisions, changes in firm structure that must be reported
- proxy voting
- most favored nation adjustments
- transfers in and out of account and termination clauses
- whether or not leverage is allowed
- whether or not derivatives are allowed, and what type
- whether or not non-public investments are allowed, and to what extent
- asset classes/ subcategories / markets / countries allowed by the mandate