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Point Loma Nazarene University Foundation

Endowment Investment Policy
Revised October 2015

Background

Point Loma Nazarene University ("University") was established in 1902 to provide higher education in a vital Christian Community where minds are engaged and challenged, character is modeled and formed, and service becomes an expression of faith. The University offers quality liberal arts and professional programs on its main campus in San Diego and select graduate and professional programs throughout the denomination's southwest educational region.

The Point Loma Nazarene University Foundation ("Foundation") was established in 1965 and is organized as a not-for-profit corporation in accordance with IRS Regulation, Section 501(c) (3). The Foundation's earnings and income are exempt from local, state and federal income taxes. The Foundation's investment portfolio assets are managed for the benefit of the University's Scholarship Endowment and Quasi-Endowment.

Investment Objective

The long-term objective of the Foundation's investment portfolio (the "endowment") is to maximize the real return (nominal return less inflation) of the assets, over a complete market cycle, with emphasis on preserving capital and reducing volatility through prudent diversification. The investment strategy integrates a holistic approach that considers the University's and Foundation's investment market risks, financial risks and operating risks. The investment strategy employed in the endowment portfolio will consider all of these risks.

The Foundation has adopted an investment strategy that has the long-term objective of producing real growth of assets in excess of the endowment's spending requirements and inflation as defined by the Consumer Price Index. The rate of return objective will be measured and evaluated over a long-term time horizon of 5-7 year rolling periods or more. Due to capital market volatility, the return may vary significantly over shorter periods of time.

Definition of Responsible Parties

Oversight of the endowment will be performed within a tiered fiduciary structure. The Foundation, also referred to herein as the Governing Fiduciary, will have ultimate responsibility for insuring that its investment objectives are achieved. The Foundation has appointed an Investment Committee, consisting of selected members of the Foundation's board of directors, to meet between Foundation board meetings for the purpose of reviewing investment reports and to evaluate and recommend to the full board changes in investments or in the endowment investment policy. The Managing Fiduciary, also referred to herein as the Chief Investment Officer, will be authorized by the Governing Fiduciary to implement and manage investments in accordance with the policies and procedures defined herein to achieve the long term objectives of the endowment, work with the various Operating Fiduciaries and report regularly to the Governing Fiduciary. Operating Fiduciaries are defined as qualified persons or organizations that provide specialized professional services necessary to fulfill functional and administrative requirements.

<u>Governing Fiduciary</u>

The Governing Fiduciary has the authority to retain qualified organizations or persons to perform the roles of Managing Fiduciary, who shall carry out responsibilities with regard to formulating and managing investment strategies, and Operating Fiduciaries, who will provide professional services such as investment advisory, investment management and custody.

The Governing Fiduciary's responsibilities include:

1. Approving revisions to the Investment Policy.
2. Periodically reviewing the endowment asset allocation.
3. Delegating specific administrative and operational responsibilities dealing with the investment and reinvestment of the endowment's assets.
4. Monitoring compliance with this Investment Policy.
5. Reviewing periodically the following subjects with the Managing Fiduciary:
    a. Investment performance, including comparisons to benchmarks.
    b. Current asset allocation of all assets
    c. Progress toward the stated objectives outlined in this Policy.
6. Appointing and overseeing the Managing Fiduciary who shall have responsibility and discretion for implementing investment strategies in accordance with the guidelines set forth as part of this Investment Policy.

The primary contact between the Governing Fiduciary and the Managing Fiduciary shall be the Foundation's Chief Financial Officer (who is also the CFO of the University), and the secondary contact shall be the President of the Foundation.

<u>Managing Fiduciary</u>

The Managing Fiduciary, or Chief Investment Officer, will have day-to-day responsibility and discretion for investing the endowment's assets, including the selection and management of the investment managers and interacting with the custodian bank in its role as Operating Fiduciary, in a manner to achieve the objectives of this Investment Policy. In its authority to effectuate administrative and operational decisions with respect to the investment and reinvestment of the endowment's assets, the Managing Fiduciary will be responsible to the Governing Fiduciary and report its actions on a regular basis to the Governing Fiduciary as set forth in the Client Agreement that governs the relationship.

As the Managing Fiduciary, the responsibilities of the Chief Investment Officer include:

1. Investing funds, through selected investment managers, within the guidelines and asset allocation ranges as set forth in the Investment Plan and attached to this Investment Policy.
2. Administrative and operational functions to support the Investment Policy dealing with the investment and reinvestment of the endowment assets.
3. Evaluating the asset allocation of the endowment consistent with Investment Policy.
4. Periodically reviewing and recommending any changes or modifications of the asset allocation ranges to the Governing Fiduciary for its approval.
5. Allocating contributions and other cash flows to investment managers or to other investment accounts as established.
6. Taking all actions with respect to investment managers including, hiring and terminating, monitoring and reviewing of investment manager contracts.
7. Setting investment guidelines for investment managers and monitoring their compliance.
8. Meeting with investment managers and evaluating their investment performance.
9. Meeting with the Governing Fiduciary, or its Investment Committee, at least quarterly or at other intervals as directed by the Governing Fiduciary.

Spending Policy

Spending from the endowment is intended to benefit the University in perpetuity. Therefore the endowment spending policy is designed to achieve a balance between: 1) the need to maximize current distribution to support the purposes designated by donors and the University; and 2) the desire to preserve and grow the endowment in order to preserve its "purchasing power" in future years. The endowment spending rate is established annually by the Foundation upon the recommendation of the University's Chief Financial Officer.

Asset Allocation

To achieve the investment objective of the endowment, an asset allocation study was conducted in the fall of 2010 to establish the initial percentage ranges for each asset class eligible for investment within the endowment. The asset allocation study incorporated the expected return, risk, and correlation of several asset classes, as well as the expected return and risk of various diversified portfolios of these asset classes. The expected return and risk of the diversified portfolios were evaluated in relation to the endowment's long-term investment objectives. Based upon this analysis, combined with an evaluation of the University's liquidity position and requirements, an asset allocation policy, which includes ranges for each asset class, was defined that best met these investment objectives. Subsequent evaluations of expected return and risk, as well as liquidity, have resulted in the Foundation making changes in asset categories and allocations. The most recently approved Investment Plan is outlined in Attachment A. This Investment Plan may be amended, usually following a formal recommendation from the Managing Fiduciary, upon the approval of the Governing Fiduciary.

Rebalancing Procedures

Periodic rebalancing will occur based upon the active-strategic targets established by the Managing Fiduciary within the asset allocation ranges set forth in the Investment Plan shown in Attachment A. The need for rebalancing should be addressed at least quarterly, or more frequently if events warrant it. Rebalancing decisions will consider the effect that transaction costs and market impact may have on the overall endowment.

Although it is the policy of the Managing Fiduciary to invest assets in accordance with the maximum and minimum ranges for each asset class, as set forth in Attachment A, rapid, unanticipated market movements, changes in economic conditions or cash flows may cause the asset mix to temporarily (generally less than one month) fall outside the ranges.

Investment Manager Structure

The assets in each asset class will be invested in accounts managed by one or more independent, third party investment managers that specialize in the specific asset class. Investment managers of varying styles (e.g. growth, value, active, passive, etc.) may be employed within each asset class. Multiple investment managers may be utilized within an asset class at the discretion of the Managing Fiduciary. Performance results for each asset class will be included in the Managing Fiduciary's quarterly report to the Governing Fiduciary.

Investment managers will be selected by the Managing Fiduciary to manage assets of the endowment based upon a quantitative and qualitative review process. This process will consider criteria including but not limited to the people, investment philosophy, investment process, investment performance, organization and the overall operation of the firm.

Investment Guidelines

Traditional investment managers that are selected to manage assets through separate accounts will be provided investment guidelines as appropriate. In general, the guidelines will stipulate the type of securities the account may own, the general characteristics for the endowment and/or the performance benchmark and objectives. The specific guidelines may vary depending upon the asset class or sub-asset class. These guidelines do not pertain to alternative investments. The guidelines will conform to the following requirements:

1. In general, investment managers shall generally remain fully invested except for transitional cash that may be needed for cash flows and trading, and shall be invested to maintain risk characteristics consistent with their benchmark.

2. Investment portfolios shall be diversified across managers, asset classes, and styles.

3. Investment managers shall invest the majority of their assets in securities that reflect their asset class assignment (see Appendix B for asset classes and benchmarks).

4. The investment managers may invest in fully collateralized derivatives (swaps or futures) to maintain market exposure, provide liquidity, and hedge currency. Notwithstanding, a manager may utilize derivatives as part of its strategy to gain exposure to certain markets and sectors or to maintain endowment risk, without imposing leverage into the endowment.

5. Investment managers may not invest in private placements (excluding 144a issues).

6. The endowment may utilize separately managed accounts, comingled pools (common trust fund or mutual fund), exchange traded funds, and limited partnerships or other investment vehicles to provide access to specialist managers and to achieve proper diversification. The comingled pools, exchanged traded funds, and limited partnerships may have specific policies that deviate from the guidelines established in this Policy Statement that govern assets supervised by Hirtle Callaghan as the Chief Investment Officer.

7. Investment managers are permitted to trade in publicly traded Real Estate Investment Trusts (REIT's), but cannot invest in private real estate transactions without the approval of the Governing Fiduciary.

Asset Class Guidelines

The portfolio will be broadly diversified among multiple asset classes and styles. The Investment Plan in Schedule A outlines the allowable range for each class. Please refer to Appendix B for appropriate Asset Class and Manager Benchmarks. Listed below are the general guidelines by investment strategy:

1. **Cash & Equivalents:** Primarily includes investments in high-quality, short-term money market instruments, including certificates of deposit, banker's acceptances, commercial paper, and other money market securities.
2. **Core Fixed Income:** Primarily includes investment grade bonds (rated BBB or higher) among US government (treasury and agency), corporate, securitized (mortgage backed and asset backed) securities with an expected duration and credit quality that is similar to the BarCap Government, BarCap Corporate and BarCap Securitized Index.
3. **Opportunistic Fixed Income**: Primarily includes non-investment grade (rated BB or below) corporate bonds, bank loans, and non-US bonds.
4. **US Large Cap Equities**: Primarily includes U.S. Large Cap Growth and U.S. Large Cap Value styles as well as both Active and Passive management.

5. **US Small Cap Equities**: Primarily includes U.S. Small Cap issuers within the Small Cap Growth, Small Cap Value and Small Cap Core styles as well as both Active and Passive management.
6. **International Developed Markets Equities:** Primarily includes investments in equity markets included in the Morgan Stanley Capital International Europe, Australasia, and Far East Index ("MSCI EAFE"). Up to 20% may be invested in Emerging Market economies.
7. **International, Emerging Markets Equities:** Primarily includes investments in equity markets domiciled in Latin American, South American, European, Middle East, and Asian markets as defined by the MSCI Emerging Markets Free Index.
8. **Real Estate Investment Trusts (REITs):** Primarily includes equity and debt securities issued by U.S. and non U.S. real estate related companies.
9. **Commodities:** Primarily includes investments in commodity-related investments including securities issued by companies in commodity-related industries and commodity related derivative instruments.
10. **Hedge Funds:** The use of hedge funds is an integral component of total portfolio management to increase the "overall" portfolio growth rate through the addition of attractive and diverse return sources that enhance portfolio returns and reduce portfolio volatility.

Environmental, Social and Governance (ESG) Investing

The Foundation seeks to emphasize sustainable and responsible investments in the portfolio by incorporating Environmental, Social, and Governance (ESG) factors as part of the overall security selection process. ESG, along with Impact Investing, Mission Related Investing, and Socially Responsible Investing (SRI), are all components of what is generally referred to as Responsible Investing. Prior to September 2015 the Foundation employed an SRI approach that avoided specific industries and companies through a negative screening process. The SRI approach reduced the universe of potential investments and during certain periods had a negative performance impact. By contrast, the ESG investment approach takes into account sustainable business practices that include safe and supportive work environments, resource efficiency, product and service safety, strong corporate governance, and other activities that enhance the long-term sustainability of its investments. The ESG investment approach does not restrict specific companies, but rather it seeks out best in class ESG performers across all industries and sectors based on an independent rating system produced by a third-party organization. However, one of the natural consequences of the ESG selection process is that companies whose revenues are primarily generated by activities the Foundation has historically found objectionable (alcohol, tobacco, gambling, abortion, and adult entertainment) rarely find their way into the ESG portfolio. Through the ESG screening process the Foundation seeks to maximize long-term performance and fulfill its mission of emphasizing investments with sustainable and responsible practices.

The remaining assets classes that are set forth in Attachment A will be implemented via a series of comingled pools and the Foundation does not directly invest in underlying securities. It is expected that the ESG screening process will be expanded to include other major investment classes in the portfolio.

Alternative Investment Guidelines

The endowment may not invest in private real estate, limited partnership interests and alternative investments, including private equity and hedge funds, without the prior approval of the Governing Fiduciary. As of January 2014, the Committee has authorized the use of various risk mitigation strategies ("hedge funds") as part of the Foundation's diversification strategy.

Reporting and Benchmarks

The custodian will provide to the University's Chief Financial Officer a monthly statement that includes the market value of all investments and a list of all transactions. The Chief Investment Officer will produce a quarterly review to the Foundation and/or its Investment Committee that includes: (1) current investment market review, (2) consolidated total portfolio review: total asset allocation versus policy target and ranges, account reconciliation, total portfolio performance (net of fees), and manager performance (net of fees), and (3) list of recommendations if appropriate.

The total endowment return, net of all fees, will reference two benchmarks for evaluating the investment performance of the aggregate endowment. First, the combined MSCI All Country World Index and the BarCap Aggregate Bond Index, weighted to reflect the equity/fixed income composition of the endowment, will be used as the undiversified benchmark. A second diversified benchmark will be constructed to incorporate the common industry benchmarks for the individual asset classes weighted according to the long term asset allocation policy.

Attachment B includes asset class and investment manager benchmarks to be used in evaluating performance. These benchmarks will apply only until amended following the recommendation by the Managing Fiduciary and the approval of the Governing Fiduciary.

Chief Investment Officer

The Foundation has appointed Hirtle, Callaghan & Co. to serve as the Chief Investment Officer and Managing Fiduciary for the endowment. As such, Hirtle, Callaghan & Co. will be responsible for and have discretion for implementing the investment policy contained herein, monitoring the overall investment program and investment managers, recommending changes to the Investment Policy, and all other duties as set forth previously within the Definition of Responsible Parties section.

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Hirtle Callaghan Investment Plan

Point Loma Nazarene University Foundation - 653350 Consolidated

ASSET CLASS	POLICY	STRATEGY TARGET	RANGE		
			Min	-	Max
Global Equity*	**75.0%**		**60%**	**-**	**85%**
US Large Cap and International Equity - Developed (ESG)		47.9%	34%	-	62%
US Small Cap		4.7%	0%	-	9%
International Equity - Emerging		5.9%	0%	-	12%
Equity - Hedge		7.5%	0%	-	10%
Commodities		5.6%	0%	-	10%
Real Estate (REITS)*		5.6%	0%	-	10%
Fixed Income	**25.0%**		**15%**	**-**	**40%**
Core Fixed Income		10.1%	6%	-	25%
Opportunistic Fixed Income		4.1%	0%	-	12%
TIPS		6.1%	0%	-	14%
Fixed Income - Hedge		2.5%	0%	-	10%
Cash		0.0%	0%	-	10%

This Investment Plan was developed by Hirtle Callaghan in consultation with Client and is made a part of the Client Agreement. Client acknowledges and agrees, the Investment Plan applies to assets held in the Main Account and all related sub-accounts (existing or opened after the effective date of the plan). In addition, all main accounts (and related sub-accounts) listed on this Investment Plan are to be managed as a consolidated account, which means that while each account alone may or may not conform to the asset allocation listed above, all accounts combined will be managed in accordance with the stated investment allocation.

Market conditions may move an account outside of the approved ranges and the implementation of a change to rebalance the account will be made in an orderly manner and consistent with Hirtle Callaghan's fiduciary responsibilities to Client and industry standards. Changes to this Investment Plan may be effected upon execution by Client and Hirtle Callaghan of a new Investment Plan, provided that the implementation of such change, if any, will be made in an orderly manner and consistent with Hirtle Callaghan's fiduciary responsibilities to Client and industry standards.

George R. Latter, Jr., Treasurer	3-2-2017 Date
Gary Smee, President	3-3-2017 Date
Investment Officer, Hirtle Callaghan	Date
Portfolio Manager, Hirtle Callaghan	Date
Hirtle Callaghan	Date

**Real Estate has been categorized as part of the equity allocation. However, the intention is to fund the Real Estate allocation from Equities and Fixed Income on a pro-rata basis. As such, the Total Equity allocation is higher than the target due to the fixed income component of Real Estate.*