

## **THE UNIVERSITY OF ARIZONA FOUNDATION INVESTMENT POLICY STATEMENT**

The Investment Committee appointed by the Board of Trustees of the University of Arizona Foundation (the “Committee”) sets forth herewith its statement of investment policies. These policies are subject to change from time to time. At all times these policies shall recognize and implement the restrictions and directions that may have been placed on gifts by donors. These policies shall comply with all applicable laws and shall be changed as necessary to comply with changes in applicable law or legal advice.

### **INVESTMENT OBJECTIVES AND ASSET ALLOCATION**

#### **Unrestricted Fund**

To provide this fund with the widest possible diversification, assets in this fund may be invested in the Foundation’s Endowment or other appropriate investment vehicle(s) as determined by the Committee from time to time. Funds not invested in the Endowment shall be invested in a US Treasury Money Market Fund.

#### **Restricted Fund**

The Foundation’s goal is to provide the benefiting unit with these assets when requested on a dollar-for-dollar basis with minimal notice except during periods of significant financial market distress when additional notice may be required. Preservation of principal is therefore the primary objective for this fund, and the Restricted Fund should be structured to produce a highly probable positive return for any given fiscal year period. Negative returns over any fiscal year period are highly undesirable. Marginal negative returns in any given quarterly period will be tolerated; however negative returns in those periods are also undesirable. Along with the responsibility of principal protection, the Foundation has the right to retain dividends, interest and realized gains from the Restricted Fund as an administrative fee. As this fee plays an integral role in financing the activities of the Foundation, the secondary objective of the restricted fund is to generate current income. The Foundation’s Board of Trustees determines each year a fair and reasonable fee for its services in the administration of its funds and has selected this arrangement as a reasonable basis to meet its goals to beneficiaries and permit the corporation to recover its costs.

To meet the two objectives outlined above, restricted assets available for investment will be invested in accordance with an asset allocation model adopted from time to time by the Committee and subject to approval by the Board of Trustees; the current model is attached as “**Exhibit A**”. The Outsourced Chief Investment Officer will cause a report to be provided to the Committee each month showing the actual and target allocations and the performance of the Fund.

#### **Life Income Funds**

The current Investment Policy for the Foundation’s life income funds is attached as “**Exhibit C**”.

#### **Endowment Fund**

**1. Goal:** To manage these assets such that the annual nominal return exceeds the annual “hurdle rate” (the sum of the Payout and the Endowment Fee) such that the endowment principal is able

to grow and continue to fund in perpetuity the set of activities envisioned by the donor at the time of the gift. In establishing this goal, the Committee defines the primary risks to the endowment as (1) the failure to achieve our goal over a full market cycle; (2) Volatility of returns; and (3) Permanent loss of capital.

Establishing a framework of acceptable ranges and specific targets for the various asset categories and sub-categories is the best way to achieve our goal. This “model portfolio” approach provides long-term strategic allocations to various sources of investment return, creating a diversified portfolio that seeks to generate long-term returns consistent with the above stated goal while managing the primary risks. Capital market returns may not be sufficient in certain periods to meet the portfolio goal. The Committee shall explicitly consider the risk of the model portfolio as expressed by the standard deviation of returns. The Committee recognizes this is an imperfect measure of risk, which at its core is best defined as the permanent loss of investment capital. Processes and policies in place to reduce the likelihood of a permanent loss of capital include but are not limited to (a) the performance of due diligence on prospective managers and continued monitoring of all managers, (b) considering the price of a recommended investment and/or fund at time of purchase, and (c) adding no leverage at the Endowment portfolio level.

Ranges and targets need to be addressed on an annual basis. Ranges should be broad enough to provide guidance in both bull and bear market cycles, and changes to the ranges should be both infrequent and minor in scope. Targets need to reflect the Outsourced Chief Investment Officer’s and Committee’s best thinking as to the intermediate (7-10 year) term outlook for the various asset classes. Changes are expected on an annual basis; gradual change is more prudent than drastic change in any annual review. The target percentages and acceptable percentage ranges for the various asset classes available to the endowment pool will be established and/or reviewed on an annual basis as the major item of business at the Committee’s first meeting of each fiscal year and subject to approval by the Board of Trustees.

The current endowment model is attached as “**Exhibit B**”

**2. Payout Rate:** The Foundation’s policy is to payout a percentage (“Payout Rate”), established as discussed below, of the average fair value of the corpus of an endowment at the end of the twelve quarterly periods within the three previous calendar year-ends. The Foundation’s policy also calls for the declaration of a payout whether or not the fair value of an individual account exceeds its historic gift value, unless otherwise precluded by the donor or by law (this practice recognizes the fact that the inability of the corporation to spend anything from an endowment is likely to be contrary to a donor’s intent to provide current benefits to the designated purpose/unit). The Committee shall establish at its first meeting of each calendar year the Payout Rate to be used for the upcoming fiscal year. The Payout Rate established by the Committee is subject to approval by the Foundation’s Board of Trustees. The Committee shall strive to maintain a Payout Rate which achieves intergenerational equity, so today’s payout beneficiaries do not unfairly benefit at the expense of future beneficiaries or vice-versa. In addition to considering this Investment Policy Statement and the goal/mission of the endowment fund as stated in Item 1 above, the Committee shall consider, if relevant, the following items in their annual deliberations on the establishment of a reasonable Payout Rate:

- The net rate of return earned by the Endowment in each of the five most recent fiscal years
- The net real (as measured by the Higher Education Price Index) rate of return earned by the Endowment in each of the five most recent fiscal years
- Payout rates established by other university endowments as published in the NACUBO-TIAA Study of Endowments.
- Other resources available to the University, and any unusual or extraordinary circumstances impacting these resources (tuition revenues, State appropriations, etc.)
- The extent to which programs benefiting from the Payout Rate rely on these funds to achieve their goals and objectives (e.g. the Karl Eller Center)
- Recommendation from the Outsourced Chief Investment Officer
- The Payout Rate in effect at the time of the deliberations
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of the endowment per the most recent asset allocation study

Payout shall be capitalized and reinvested into the corpus for the first twelve months subsequent to the funding of each new endowment account.

The minutes of the Committee meetings will document the items considered as part of its deliberations; the applicable portion of the meeting minutes plus all documents reviewed by the Committee in establishing the Payout Rate shall be added to the minutes of the Foundation and placed in its books and records.

**3. Endowment Fee:** The Committee shall establish at its first meeting of each calendar year the Endowment Fee to be assessed for the upcoming fiscal year. The Endowment Fee established by the Committee is subject to approval by the Foundation's Board of Trustees. The Foundation has considered different approaches to establish a fair and reasonable fee in connection with its services associated with the administration of the endowments and has determined that it is not practical to establish individual fees for separate endowments and that the cost and time necessary for such an approach outweigh any benefits. Therefore, the Foundation has elected to establish a fair and reasonable uniform fee applicable to all endowments based on the criteria set out herein. In addition to considering the impact the Endowment Fee has on the endowment's net return, the Committee shall consider any or all of the following items in their annual deliberations on the establishment of a reasonable Endowment Fee:

- The external costs of managing the endowment
- The internal costs to manage and provide stewardship for the endowment
- Endowment Fee rates established by other university endowments as published in the NACUBO-TIAA Study of Endowments or other credible industry surveys.
- Recommendation from the Outsourced Chief Investment Officer
- The Endowment Fee in effect at the time of the deliberations

The minutes of the meeting will document the items considered in its deliberations; the applicable portion of the minutes plus all documents reviewed by the Committee in establishing

the Endowment Fee shall be added to the minutes of the Foundation and placed in its books and records.

## **AUTHORITY AND RESPONSIBILITY**

### **The Investment Committee**

The Committee is responsible for directing and monitoring investment of the Foundation's investment assets, but is authorized to retain and solicit the recommendations of qualified professionals including the (a) Outsourced Chief Investment Officer, (b) Investment Managers and (c) Investment Custodians. The Committee's major responsibilities involve developing policy and providing advice and direction to the Board of Trustees on strategic matters, including but not limited to:

- Approving investment products for inclusion in or removal from the Foundation's portfolios.
- Monitoring the Foundation's investments for compliance with all laws, rules and regulations, including but not limited to the *Management of Charitable Funds Act* as implemented by the State of Arizona from time to time.
- Approving an asset allocation model for the Restricted and Endowment Funds, and any other funds established by the corporation from time to time, including consideration of the appropriate rates of return and risk for such funds. This model will include ranges and targets for the asset classes available for investment, and will also include consideration of the best way to implement the model (value vs. growth, passive vs. active, etc.). The recommended models will be submitted to the Board of Trustees for their consideration and approval.
- Approving on an annual basis the contract with the Outsourced Chief Investment Officer.
- Recommending to the Board of Trustees the Payout Rate and Endowment Fee on an annual basis.
- Reviewing performance at both the manager and portfolio level on a periodic basis and, if necessary, instructing the Outsourced Chief Investment Officer to conduct additional due diligence on any investment manager/product.
- Reviewing on an annual basis the continuing sufficiency of these policies.
- Providing regular and detailed reports to the Foundation's Board of Trustees at its regularly scheduled meetings in form and content sufficient for the Trustees to exercise their duty of oversight. The Committee shall also provide to the Board of Trustees its recommendations in connection with any specific investment products being considered and with respect to any suggested changes in these investment policies.

The Committee's responsibilities noted above are defined in the Investment Committee Charter as amended from time to time.

### **The Outsourced Chief Investment Officer (OCIO)**

The OCIO serves as an advisor to the Investment Committee, and will assist the Committee as needed in carrying out their responsibilities noted above. Additional responsibilities of the OCIO include:

- Recommending any changes to the Endowment and Restricted asset allocation models on an annual basis.
- Recommending new and replacement investment products.
- Providing written comments and recommendations on the Foundation's Investment Policy as needed, but on no less than an annual basis.
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- Providing all necessary materials to Committee members in advance of each Committee meeting.
- Preparing monthly reports to the Committee showing the performance of each manager, how such performance compares to the benchmark(s) selected for such manager, and to the extent possible showing the quartile in which such performance is ranked.
- Preparing an annual report on the Foundation's endowment, including performance and allocation information important to the donor community.
- Work with the Staff Liaison to develop and schedule meetings of the Investment Committee such that all important matters are brought to the Committee's attention in a timely fashion.
- Monitoring the Restricted and Endowment portfolios to ensure that assets remain within the designated ranges as specified in the asset allocation models, and implementing appropriate actions to address situations where the actual differs from the target allocation by a material amount.
- Monitoring each business day all assets held by the custodian and investigating any significant or unusual changes.
- Meeting with all incoming Committee members to ensure they are fully briefed prior to attending their first meeting.
- Reviewing and signing all offering documents for new investment products approved by the Committee.

- Providing the Committee with reports comparing investment performance and asset allocation with peer institutions as published in the NACUBO-TIAA Study of Endowments.
- Monitoring and reporting on adherence of investment products to this Investment Policy. Providing updates to the Committee on investment products and managers, including departures of key personnel, style drift, changes in investment process and any other matter requiring the Committee's attention including a recommendation that an investment manager be retained or terminated

### **The Investment Managers**

Investment managers shall:

- Act as responsible fiduciaries in all matters involving their management of Foundation assets and comply with all applicable laws, rules and regulations.
- Operate at all times within the applicable law and regulations applicable to the industry/sector and consistent with their Environmental, Social, and Governance Policy, which has been drafted to incorporate best practices within the industry/sector
- Report all activity to the OCIO on a timely basis as agreed, but in no event will such report be provided on less than a quarterly basis. Such reports shall include a comparison of performance with the agreed-upon benchmark, and will include details about the holdings and strategies of the applicable product.
- Vote, or cause to be voted, all proxies on securities held by the Foundation.
- Provide the CFO with copies of audited financial statements covering the investment product in a timely manner.
- Make presentations to the Investment Committee when and as requested.
- Maintain a strict adherence to the mandate under which they were engaged.
- Provide the OCIO with a written report within five business days of the following matters: (a) change in ownership or legal entity status; (b) change in key personnel, including a change in anyone on the product portfolio management team; (c) change in investment philosophy or style (d) civil or criminal charges filed against the firm by a regulator.

## PERFORMANCE MEASUREMENT AND REPORTING

### Performance Measurement

The OCIO shall prepare or cause to be prepared a report comparing each investment manager's performance to benchmarks as agreed upon from time to time. Benchmarks will include the appropriate primary asset class benchmark, as well as any secondary or style-related benchmarks, where applicable. Where applicable, this report will include a comparison of the managers versus appropriate peer groups available from recognized reporting services. This report is to be provided to the Committee on a monthly basis.

The following table outlines the Benchmarks to be used for the Foundation's asset classes in situations where a specific benchmark is not agreed upon with a manager. The primary benchmark is listed first, with any secondary benchmarks following:

<u>Asset Class</u>	<u>Benchmark(s)</u>
Cash	US 91-day T Bills
Public Equity-U.S.	Russell 3000 Index
Public Equity-Global	MSCI AC World Index
Public Equity-Int'l Developed	MSCI EAFE Index
Public Equity-Emerging Markets	MSCI Emerging Markets Index
Public Fixed Income	Barclays U.S. Aggregate
Private Credit	Thomson One Distressed Thomson One Mezzanine
Private Equity	Thomson One All Private Equity
Diversifying Strategies	The applicable HFRI Index CPI + 500 basis points
Public Real Assets	S&P Developed BMI Property Index FTSE Gold Mines Index
	Thomson One Private Real Estate Index S&P Developed BMI Property Index
Private Real Assets	Thomson One Private Natural Resources NCREIF Timberland Index Thomson One Real Estate

In addition to the performance reports noted above, on a quarterly basis the Outsourced Chief Investment Officer will prepare or cause to be prepared a report which compares the actual performance for the quarter with the performance of the “policy portfolio”, which is to be computed using the target allocation and primary benchmark for each asset class as shown above. The report shall include an explanation for any significant differences between the actual return and the policy portfolio return.

The OCIO will make recommendations to the Staff and Investment Committee on any proposed adjustments to the benchmarks shown above. The Committee shall determine the advisability of any such changes from time to time and make prompt recommendations to the Board of Trustees.

### **Reporting**

**Reporting to OCIO:** All managers shall provide a monthly (quarterly for Private Equity, Private Real Estate, Timber/Agriculture, and Private Energy) performance report to the OCIO in the form and manner as agreed to from time to time.

### **ESG and Sustainability**

The Committee and Board seek to ensure the Foundation and all related parties conduct business with ethical standards and ensure that our business practices comply fully, in appearance and deed, with all applicable laws and regulations. In managing the portfolio, all constituents and related parties who are affected by Foundation’s activities are treated fairly and without prejudice to gender, race, ethnic or national origin, socioeconomic status, age, religion or disability. We encourage and embrace the efficient use of natural resources and continuously look for and expect the best environmental solutions to be executed by our investment managers for their underlying investments in companies or physical assets.

Mindful of our goal for managing the endowment as noted at page 1, the Committee will consider the extent to which an investment is consistent with the principles and goals of the University. Where appropriate, the Foundation may seek to influence or avoid those investments that conflict with those principles and goals. Action will only be taken, however, if the Committee believes it would not cause harm to the investment objectives of the Fund, impair performance or place a material burden on the current resources of the Endowment.

### **MEETINGS**

The Committee shall meet on the dates and times approved by the Committee at the last meeting of each fiscal year. In addition to these scheduled meetings:



- The Chair of the Committee may call a special meeting at any time with at least 72 hours notice.
- The OCIO is empowered to conduct meetings via electronic or similar means if a particular investment product or other item of significance requires immediate action by the Committee.

### **ADMINISTRATIVE FEES**

The annual fees assessed for the endowment funds and the restricted assets are set out above. In addition to such fees the Committee shall recommend to the Board of Trustees from time to time any special arrangements where it is appropriate to establish a different fee and its basis for doing so.

**University of Arizona Foundation  
Investment Policy Statement  
Restricted Fund Asset Allocation  
Exhibit A**

<u>Asset Classes</u>	<u>Sub-Categories</u>	<u>Range of Allocation</u>	<u>Target %</u>
Cash		0%-40%	20%
U.S. Equities	Large-Cap	0%-25%	10%
International Equities	Developed Markets	0%-10%	5%
	Emerging Markets	0%-10%	0%
	<b>Sub-total</b>		<b>5%</b>
U.S. Fixed Income	Public Fixed Income	0%-60%	43%
	Private Credit	0%-20%	12%
	<b>Sub-total</b>		<b>55%</b>
Absolute Return		0%-25%	10%
	<b>Grand Total</b>		<b>100%</b>

**University of Arizona Foundation  
Investment Policy Statement  
Endowment Fund Asset Allocation  
Exhibit B**

<u>Asset Classes</u>	<u>Sub-Categories</u>	<u>Range</u>	<u>Target</u>
<b>Equity</b>	Public Equity	25-40%	
	US		17%
	Global		5.5%
	Int'l Developed		7.0%
	Emerging Markets		<u>5.5%</u>
	Total Public Equity		35%
	Private Equity	10-25%	<u>16%</u> <b>51%</b>
<b>Real Assets</b>	Public Real Assets	2-10%	4%
	Private Real Assets	10-20%	<u>13%</u> <b>17%</b>
<b>Fixed Income</b>	Cash	0-5%	3%
	Public Fixed Income	5-20%	10%
	Private Credit	0-6%	<u>3%</u> <b>16%</b>
<b>Diversifying Strategies</b>		5-25%	<b>16%</b>
	<b>Grand Total</b>		<b>100%</b>

# University of Arizona Foundation

## Investment Policy Statement

### Life Income Funds-Exhibit C

- I. The following **Statement of Investment Philosophy** provides details about the investment philosophy of TIAA-Kaspick ("Manager") as it pertains to the management of the planned gift assets of The University of Arizona Foundation ("Trustee").

The objective of the portfolios under management is to maximize their total return, subject to achieving:

- An acceptable level of income (dividends and interest) for those portfolios that can only distribute income,
- An acceptable balance between the income earned and the total distribution for portfolios with distributions not limited to income, and
- An acceptable level of portfolio risk.

An acceptable level of portfolio risk will be attained by selecting an appropriate asset mix, in consultation with the Trustee, and by diversifying portfolios, both across asset classes and within asset classes. The Manager uses multiple asset classes to diversify portfolios. Asset classes used in the portfolios may include:

- Domestic small capitalization stocks
- Domestic large capitalization stocks
- International small capitalization stocks
- International large capitalization stocks
- Emerging markets stocks
- REIT (real estate investment trust) stocks
- High quality bonds
- Investment grade bonds
- High yield bonds
- International bonds
- Short-term investments

The Manager will not add a new asset class to the portfolios without the prior approval of the Trustee. Any substantial change to the Manager's investment philosophy will be communicated to the Trustee prior to its implementation in any of the portfolios. The Trustee will provide in writing to the Manager any restrictions on the investment activity of any of the portfolios.

The Manager will provide the Trustee with a list of the current investment vehicles being used for the portfolios. Prior to adding any new *types* of investment vehicles, the Manager will provide a written description of the investment vehicle to the Trustee so that the Trustee may review it for any tax implications. The Trustee shall have 30 days to advise the Manager if there are any reasons why the Manager should not use the

proposed investment vehicle. If not notified within this period, the Manager shall be free to use the proposed investment vehicle in the portfolios.

**II. Portfolio Asset Allocations:** For investment management purposes, all portfolios without restrictions are assigned to an asset allocation. The asset allocations are: Aggressive, Aggressive Growth, Growth, Growth/Income, Income/Growth, Income, High Income, and All Fixed Income. The names reflect the portfolios' increasing exposure to fixed income instruments. As more bonds are added to a portfolio, its expected current yield rises, but its expected long-term total return falls. In certain cases, custom portfolio allocations may also be developed.

**A. Asset Allocation:** The current strategic mix for each asset allocation is shown in Exhibit 1, along with its expected current yield and long-term expected total return. While these numbers are based on long-term historical data and current market yields, the Manager makes no assurances or promises that these returns or yields will be achieved. This sheet is reissued annually or sooner if there is a meaningful shift in current market yields or the Manager makes strategic changes to the asset allocations.

The total return numbers shown in Exhibit 1 are based on an inflation rate which may change over time (see the footnote in Exhibit 1 for the assumed inflation rate). Real returns (total nominal returns net of inflation) may vary, but should remain relatively constant over very long periods. Over shorter periods, there will be significant variation around the expected long-term returns.

The Manager will seek to add value to the portfolios by making tactical adjustments around the asset allocation targets and by timing the rebalancing of portfolios. In general, portfolios will be rebalanced when allocations have moved substantially from targets, when a manager or an asset class weighting is changed, or when portfolio cash needs to be replenished.

**B. Diversification Within Asset Classes:** The Manager generally seeks to diversify by investment style within the actively managed equity asset classes. As portfolios fall in size, this diversification is necessarily reduced to avoid small purchases. For portfolios below \$50,000, there may also be some loss of asset class diversification. The portfolio holdings within each mutual fund are typically well diversified.

**C. Assigning Individual Portfolios to Allocations:** The assignment of an individual account to an asset allocation depends on several factors: trust type, payout rate, market value of the portfolio at its valuation date and subsequently, the expected trust horizon, whether fees or expenses are paid from the trust, whether fees or expenses are charged to income or principal, whether deficits exist and are being made up, the beneficiary's situation, the likely impact of the allocation choice on the tax character of the beneficiary's payments, and any special instructions.

The following policies will be used by the Manager absent specific alternative instructions provided by the Trustee, in writing, for a particular account.

1. For **flat unitrusts** (also known as straight or standard trusts), the investment allocations will be selected taking into account the potential return of the asset mix, as well as its risk, specifically the risk of payment volatility. As shown in Exhibit 1, the most aggressive allocation used will be the Growth allocation; the most conservative will be the Income/Growth allocation.
2. For **net income unitrusts**, the investment allocation will be selected on a case-by-case basis. The Manager will assist the Trustee in evaluating the alternatives. The allocations will be selected taking into consideration the age of the beneficiary, as well as the payout percentage, the pattern of historical distributions, and the objective for the remainder value. In general, the portfolios of older beneficiaries will be managed to generate income at or near the payout percentage. The portfolio allocations for younger income beneficiaries will be determined with an understanding that maximizing current income may result in an income stream that erodes in purchasing power, as well as in lower total income over the life of the trust. The following table (based on one-life trusts) will act as a guide in decision-making:

<u>1-Life Age (Yrs)</u>	<u>1-Life Horizon (Yrs)</u>	<u>Preliminary Portfolio Allocation</u>
83 plus	<=8	High Income
78-82	9-10	Income
73-77	11-14	Income/Growth
68-72	15-18	Growth/Income
67 or less	>18	Growth

When there is a meaningful shift in current yields, the asset allocations selected for individual trusts will be revisited; however, this will not necessarily result in portfolios being moved to a different allocation. This decision is particularly acute for net income trusts in periods of falling interest rates when the Trustee must decide whether to maintain the original asset allocation which will result in an underpayment of the unitrust amount or to shift the trust to an asset allocation that will provide higher current income. A decision to move to an asset allocation that will generate more income (by adding more bonds to the portfolio) may not be in the best long-term interest of the income beneficiary or the remainderman. Because of this trade-off, flip trusts are the preferred trust type for gifts of illiquid assets.

Net income unitrusts that distribute short-term capital gain mutual fund distributions as income will not, as a result, be invested differently, given the unpredictability of these distributions. In these cases, year-over-year income is likely to be more volatile.

Any expenses or fees charged to income will reduce the amount paid to beneficiaries. The Trustee will provide the Manager, in writing, the percentage yield to add to the anticipated portfolio yield for any trust for which the Trustee decides to make up the accumulated deficit. Trustees should consider carefully the longer term effect on the trust of making up deficits.

3. **Flip trusts** that are still net income trusts (i.e., before they flip) will be invested on a case-by-case basis. When a flip trust converts to a flat trust (beginning on January 1 of the new year after the trust flips), it will be invested according to the policies for flat trusts, described above in C1.
4. For **annuity trusts**, the investment allocations will be selected taking into account the potential return of the portfolio, as well as its risk, specifically the risk that the trust runs out of money before its termination. The portfolio allocation selected will be based on the trust's effective payout rate, equal to the annual beneficiary payment plus annual fees charged to the trust divided by the trust's current market value. As shown in Exhibit 1, the most aggressive allocation used will be the Growth allocation; the most conservative will be the Income/Growth allocation.
5. For **Pooled Income Fund 1980**, the portfolio allocation selected will be the Income allocation shown in Exhibit 1. The portfolio allocation selected for **Pooled Income Fund 1983** will be the High Income allocation. The portfolio allocation selected for **Pooled Income Fund 1986** will be the Income allocation. Any expenses or fees charged to income will reduce the amount paid to the beneficiaries.
6. For the **gift annuity pool** (holding both current and deferred contracts), the asset allocation will be Income/Growth. State-specific and/or general reserve accounts will be added if the Trustee registers to issue gift annuities in any state requiring a reserve account. The aggregate allocation of the reserve and surplus accounts will be invested to the Income/Growth allocation.
7. For **life income trusts** (also known as **pre-69 trusts**), the asset allocation selected will be determined on a case-by-case basis.
8. The Trustee will maintain a **corporate account** at the custodian, invested in a money market fund. Any transfers out of this account or any custody account require the Trustee's authorization.
10. **Excess payout requirements:** For any portfolio with a yield requirement that is greater than that which can be generated by the High Income allocation, the Manager will use the asset allocation for the High Income allocation unless otherwise directed by the Trustee in writing. The Manager will assist the Trustee in designing and evaluating alternative asset allocations if an even higher current yield is desired.
11. Exhibit 1 summarizes the current asset allocation policy for flat unitrusts and annuity trusts with different payout rates.
12. When making investment decisions for individual trusts, the Trustee will take into account the **expected horizon** of the trust and/or the age of the income beneficiaries, as well as their financial situation, to the extent known. As noted above, however, the investment policies are not driven by age alone. Each portfolio decision will be

revisited at least annually considering among other factors any new information about the beneficiary's situation.

### III. Miscellaneous Policies

- A. **Fees:** Fees for asset management and trust administration services will be charged to the trusts and/or paid by the Trustee, as determined by the Trustee, based on its policies and the language in the trust documents. The Trustee will provide this information in writing to the Manager. The Manager recommends that trust language provide the Trustee with full discretion in allocating fees and that fees generally be charged to principal.
- B. **Deficits** in net income trusts with make-up provisions that result from deficiencies in income generated by the asset(s) funding the trust will not be made up, except to the extent that surplus income is earned from the asset allocation selected under the guidelines above, or upon specific written instructions from the Trustee.
- C. **Donated securities** will be sold in their entirety as soon as possible, barring any market trading limitations, typically on receipt of the gift. If requested by the Trustee, the securities can be sold over a longer period. Note that if the donated securities are all sold on one day, the entire portfolio will be uninvested until the trades settle. The Manager cannot guarantee that the donor's gift value will be captured in the sales. Due to high transaction costs, donated fixed income securities may be held as substitutes for mutual funds in the bond categories if they approximate the desired maturity and risk criteria. Illiquid securities may take longer to sell; the Manager makes every effort not to represent more than 20% of the day's trading volume in any stock.
- D. The Manager will generally **invest a new portfolio** or additions to a portfolio immediately at its target portfolio allocation. At times, the Trustee may request that a portfolio be averaged-in over time to its portfolio allocation. These requests may arise because of the age of the donor, the donor's tolerance for volatility, or because the investment period immediately precedes the trust valuation date. In those cases, based on the Trustee's written instructions, the portfolios will generally be averaged-in over a six-month period. Upon **termination of a trust**, assets will be sold as soon as practicable and transferred on the Trustee's instructions.
- E. **Restricted assets or non-marketable assets:** The Trustee will instruct the Manager, in writing, when an asset is to be held in the portfolio rather than sold. To the extent possible, the Manager will attempt to "wrap" the desired asset allocation around the restricted asset using the Manager's best judgment as to the asset class(es) the restricted asset substitutes for. If the restricted asset has a different yield than the asset class it is substituting for, the Manager will attempt to adjust the overall asset allocation to generate the target yield for the trust.

**Promissory notes** resulting from the sale of real estate held in the trust will be held by the Manager until maturity or until the notes are called. The Manager will use a value of



par or 100 for promissory notes unless otherwise directed. The Manager will notify the Trustee of any late payments but will not perform the duties of a collection agent.

- F.** Portfolios holding **tax-exempt bonds** will generally require action by the Manager only when the underlying bonds mature or are called, or if the income being generated is insufficient to meet the required payout. In reacting to these situations, the Manager will, based on its best judgment, attempt to maintain the following portfolio characteristics:
1. Laddered maturities that do not extend significantly beyond the expected maturity date of the portfolio,
  2. A sufficient cash flow or enough principal cash to meet payout requirements,
  3. A credit quality of investment grade bonds for new purchases.

Because of trust size or market limitations, the Manager may use a tax-exempt mutual fund. Tax-exempt mutual funds will occasionally distribute small amounts of capital gain income. The Trustee should instruct the Manager if only state-specific bonds or mutual funds should be purchased.

- G.** Portfolios in which the Manager is instructed to minimize income (e.g., "**retirement trusts**") will be invested on a case-by-case basis. At the Trustee's request, if appropriate, the Manager may design a portfolio that includes zero-coupon bonds to minimize current distributable income.
- H. Cash flow deficiencies:** For portfolios in which portfolio yield is not sufficient to meet cash flow needs, the Manager will use its best efforts to ensure that sufficient cash will be available from either unreinvested capital gain distributions or principal cash. In general, however, the Manager will manage the portfolios to minimize the amount of cash held because of its low long-term expected return relative to other asset classes.
- I.** The Manager will be subject to the following **limitations** on portfolios, unless the Trustee has approved an exception in writing: 1) no one security (except for diversified mutual funds and U.S. Treasury obligations) will consist of more than 7% of any portfolio, and 2) no one high yield bond mutual fund will consist of more than 10% of any portfolio.

**J. Prudent Investor Act:** Many of the portfolio assets invested by the Manager are subject to the Revised Arizona Prudent Investor Act (the "Act") and such assets will be invested in compliance with the Act. From time to time, a portfolio asset may not fit within one of the described categories or otherwise comply with the specific goals set out for the planned gift assets held by the University of Arizona Foundation. In such cases, the Manager will notify the Trustee and provide recommendations on further handling which shall be at the discretion of the Trustee.