Endowment Fund Investment Policy Statement

I. Introduction
The Independent Colleges of Washington Endowment Fund (hereafter referred to as the “Fund”) was created to provide financial resources for students. The purpose of this Investment Policy Statement is to establish guidelines for the Fund’s investment portfolio (the “Portfolio”). The statement also incorporates accountability standards that will be used for monitoring the progress of the Portfolio’s investment program and for evaluating the contributions of the manager(s) hired on behalf of the Fund and its beneficiaries.

II. Role of the Finance and Audit Committee
The Finance and Audit Committee (the “Committee”) is acting in an advisory capacity with respect to the Portfolio and is accountable to the Board of Directors of the Independent Colleges of Washington for overseeing the investment of all assets owned by, or held in trust for, the Portfolio.

A. This Investment Policy Statement sets forth the investment objectives, distribution policies, and investment guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for Portfolio assets.

B. The investment policies for the Fund contained herein have been formulated consistent with the Institution’s anticipated financial needs and in consideration of the Institution’s tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Committee.

C. Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring that the Portfolio’s investments are managed consistent with the short-term and long-term financial goals of the Fund. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in capital market conditions and in the financial circumstances of the Institution.

D. The Committee will review this Investment Policy Statement at least once per year and make recommendations to the Board regarding any revisions. Any proposed changes to this Investment Policy Statement can be made only by affirmation of a majority of the Committee, and written confirmation by the Board will be provided to all Committee members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

III. Investment objective and spending policy

A. The Fund is to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions in support of student scholarships.

B. For the purpose of making distributions, the Fund shall make use of a total-return-based spending policy, meaning that it will fund distributions from net investment income, net realized capital gains, and proceeds from the sale of investments.
C. Each year the endowment funds may pay the appropriate percentage of the average Fair Market Value (FMV) as an annual distribution. The distribution rate shall not exceed 5% of the FMV.

D. The average FMV is defined as the average FMV of the prior 12 quarters of the year prior to distribution to be determined using the third quarter (calendar year) report (July – September).

E. The distribution of Fund assets will be permitted to the extent that such distributions do not exceed a level that would erode the Fund’s corpus over time. The Committee will seek to reduce the variability of annual Fund distributions by factoring past spending and Portfolio asset values into its current spending decisions. The Committee will review its spending assumptions annually for the purpose of deciding whether any changes therein necessitate amending the Fund’s spending policy, its target asset allocation, or both.

F. Periodic cash flow, either into or out of the Portfolio, will be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy at Section V. A. herein.

G. Endowment funds will be subject to a minimum corpus of $20,000 before any income distributions can be made. Any accumulated total investment return on the endowment funds shall be added to the principal of the funds each year until $20,000 is reached. New gifts to the endowment will increase the corpus. Income from funds will be distributed according to ICW policy unless outlined differently in the endowment agreement signed by the donor and ICW at the time of its creation.

H. All income over the amount used will be returned to the portfolio to provide for long term growth and protection from inflation. Expenditures made from the endowment must adhere to the approved guidelines for each of the individual funds.

I. In the event of dissolution of the organization, the net resources after paying endowment fees and other administrative costs, shall be distributed to the member colleges on the same formula as the dues structure.

IV. Legal and Regulatory

In seeking to attain the investment objectives set forth, the Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Washington (RCW 24.55). UPMIFA provides relief from two traditional tenets of trust law by specifically permitting an endowment fund to spend a prudent portion of total return and to delegate investment discretion to qualified professionals. UPMIFA allows an endowment fund to expend the amount they deem prudent after considering to the extent relevant, the following factors:

A. General economic conditions;
B. The possible effect of inflation or deflation;
C. The expected tax consequences, if any, of investment decisions or strategies;
D. The role that each investment or course of action plays within the overall investment portfolio of the fund;
E. The expected total return from income and the appreciation of investments;
F. Other resources the institution;
G. The needs of the institution and the institutional fund to make distributions and to
preserve capital; and
H. An asset’s special relationship or special value, if any, to the charitable purposes of
the institution

If the Committee chooses to delegate investment discretion to qualified professionals, the
Committee shall act in good faith and exercise care of an ordinary prudent person in like
circumstances in 1) selecting an agent, 2) establishing the scope and terms of the delegation
and 3) periodically reviewing agents’ actions to monitor performance and compliance with the
terms and scope of delegation. The Committee will not invest funds with any firm or in any
vehicle that may, as a result of the transaction, monetarily benefit a member of the Committee,
staff, pursuant to the Conflict of Interest Policy. All expenses for such experts must be
appropriate and reasonable in relation to the assets, the purposes of the Long Term Portfolio,
and the skills of the Committee, and will be borne by the Long Term Portfolio as deemed
appropriate and necessary.

v. Portfolio investment policies

Asset allocation policy

1. The Committee recognizes that the strategic allocation of Portfolio assets across
broadly defined financial asset and sub asset categories with varying degrees of risk,
return, and return correlation will be the most significant determinant of long-term
investment returns and Portfolio asset value stability.

2. The Committee expects that actual returns and return volatility may vary from
expectations and return objectives across short periods of time. While the Committee
wishes to retain flexibility with respect to making periodic changes to the Portfolio’s
asset allocation, it expects to do so only in the event of material changes to the Fund,
to the assumptions underlying Fund spending policies, and/or to the capital markets
and asset classes in which the Portfolio invests.

3. Fund assets will be managed as a balanced portfolio composed of two major
components: an equity portion and a fixed income portion. The expected role of
Fund equity investments will be to maximize the long-term real growth of Portfolio
assets, while the role of fixed income investments will be to generate current income,
provide for more stable periodic returns, and provide some protection against a
prolonged decline in the market value of Portfolio equity investments.

4. Cash investments will, under normal circumstances, only be considered as temporary
Portfolio holdings, and will be used for Fund liquidity needs or to facilitate a planned
program of dollar cost averaging into investments in either or both of the equity and
fixed income asset classes.

5. Outlined below are the long-term strategic asset allocation guidelines, determined by
the Committee to be the most appropriate, given the Fund’s long-term objectives
and short-term constraints. Portfolio assets will, under normal circumstances,
allocated across broad asset and subasset classes in accordance with the following guidelines:

<table>
<thead>
<tr>
<th>Allocation Range</th>
<th>Asset class</th>
<th>Sub asset class</th>
<th>Low</th>
<th>Target</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity</td>
<td></td>
<td>55%</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>U.S.</td>
<td></td>
<td>55%</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>Non-U.S.</td>
<td></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Fixed income</td>
<td></td>
<td>35%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>U.S. Aggregate</td>
<td></td>
<td>35%</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>U.S. TIPS</td>
<td></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
</tr>
</tbody>
</table>

6. To the extent the Portfolio holds investments in nontraditional, illiquid, and/or nonmarketable securities including (but not limited to) venture capital, hedge funds, and real estate investments, these assets will be treated collectively as alternative investments for purposes of measuring the Portfolio’s asset allocation. While not specifically considered within this policy, alternative investments may comprise no more than 15% of total Portfolio assets and, to the extent they are owned, will proportionately reduce target allocations to the three primary asset classes itemized above.

Diversification policy

Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

1. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.

2. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 25% of total Portfolio assets.

3. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor’s BBB or Moody’s Baa or higher).

Rebalancing

It is expected that the Portfolio’s actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and subasset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:
1. The Staff, in consultation with Committee and/or consultant, as appropriate, will initiate the rebalancing process through written instruction to the Fund’s custodian and investment managers.

2. The investment advisor will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio to realign the current weightings closer to the target weightings for the Portfolio.

3. The investment advisor will review the Portfolio semiannually (June 30 and December 31) to determine the deviation from target weightings. During each semiannual review, the following parameters will be applied:
   a) If any asset class (equity or fixed income) within the Portfolio is greater than +/-5% percentage points from its target weighting, the Portfolio will be rebalanced.
   b) If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.

4. The investment advisor may provide a rebalancing recommendation to the Committee at any time.

5. The investment advisor shall act within a reasonable period of time to evaluate deviation from these ranges.

Cost

The Committee desires to minimize the costs associated with the investment portfolio. As a result, low cost investments such as exchange traded funds ("ETFs") or no-load index mutual funds are preferred investments.

Other investment policies

Unless expressly authorized by the Committee, the Portfolio and its investment managers are prohibited from:

1. Purchasing securities on margin or executing short sales.
2. Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
3. Purchasing or selling derivative securities for speculation or leverage.
4. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of their Portfolio.

VI. Monitoring portfolio investments and performance

The Committee will monitor the Portfolio’s investment performance against the Portfolio’s stated investment objectives. At a frequency to be decided by the Committee, it will formally assess the Portfolio and the performance of its underlying investments as follows:

A. The Portfolio’s composite investment performance (net of fees) will be judged against the following standards:
   1. The Portfolio’s absolute long-term real return objective (e.g., CPI + 5%).
2. A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the Portfolio's investment guidelines.
   (a) U.S. Equity: MSCI US Broad Market Index
   (b) Non-U.S. Equity: MSCI AC World ex-US Index
   (c) Investment Grade Fixed Income: Barclays US Aggregate Float Adjusted Index
   (d) U.S. Tips: Barclays Capital U.S. TIPS Bond Index
   (e) Cash: Citigroup 3-Month T-Bill Index

B. The performance of active investment managers hired on behalf of the Portfolio will be judged against the following standards:
   1. A market-based index appropriately selected or tailored to the manager’s agreed-upon investment objective and the normal investment characteristics of the manager’s portfolio.
   2. The performance of other investment managers having similar investment objectives.

C. The performance of passive investment managers hired on behalf of the Portfolio will be judged against the following standards:
   The tracking error relative to a market-based index appropriately selected or tailored to the manager’s agreed-upon investment objective and the normal investment characteristics of the manager’s portfolio.

D. In keeping with the Portfolio’s overall long-term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.

E. Investment reports shall be provided by the investment manager(s) on a calendar quarterly basis or as more frequently requested by the Committee. Each investment manager is expected to be available to meet with the Committee once per year to review portfolio structure, strategy, and investment performance.

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