

**THE ARMAND HAMMER  
UNITED WORLD COLLEGE OF THE AMERICAN WEST  
STATEMENT OF INVESTMENT OBJECTIVES, POLICIES  
AND MANAGEMENT GUIDELINES  
FOR THE ENDOWMENT FUND**

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**THE ARMAND HAMMER  
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INTERIM STATEMENT OF INVESTMENT OBJECTIVES, POLICIES  
MANAGEMENT GUIDELINES  
FOR THE ENDOWMENT FUND**

**I. INTRODUCTION**

- A. This statement of investment objectives, policies and management guidelines governs the investment management of the Armand Hammer United World College of the American West (the “College”) Endowment Fund and other College funds available for investment (the “Fund”) by the Investment Subcommittee (the “Subcommittee”) of the Finance Committee of the Board of Trustees of the College (the latter herein defined as the “Board”) For purposes of clarification within this documents, invested Endowment funds will be referred to as the Endowment Pool, other invested funds will be referred to as the Non-Endowed Pool.
- B. The purpose of the Fund is to provide financial stability through permanent funding of College needs.
- C. The purpose of this statement is to foster a clear understanding of the Fund’s investment objectives, policies, and guidelines among the College’s various constituencies, as well as by investment consultants or managers retained to assist the College in its management of the Fund.
- D. It is contemplated that there will be an allocation of Fund assets among a variety of financial asset categories. The Subcommittee will seek a diversified investment strategy to maximize returns while reducing risk..
- E. Any amendments to the spending policy set forth in Section II hereof, or to the investment objectives set forth in Section III hereof, shall be proposed by the Finance Committee and approved by the Board. The Board has delegated to the Finance Committee the responsibility for reviewing and monitoring the activities of the Subcommittee. Except as otherwise specifically provided herein, these guidelines will be implemented by the Subcommittee.
- F. The policies and objectives set forth below apply to the overall Fund; specific guidelines for individual accounts managed by investment advisors may be prepared from time to time, which may specify certain policies and guidelines for those accounts.

## **II. SPENDING POLICIES**

- A. The College hereby adopts an annual target spending rate of 5% of the Endowment Pool.
- B. The actual annual distribution from the Endowment Pool to the College shall be determined by applying the target spending rate to the average of the Fund's market value over the prior 12 quarters of each endowment fund within the Endowment Pool as of June 30 of the prior year. The moving twelve-quarter average described above shall be applied to all components of the Fund, including both new and old contributions.
- C. It is understood that special consideration may have to be made for large contributions or fund drives in support of specific programs. The Finance Committee may direct the Subcommittee to assume, for purposes of the spending calculation outlined in this section, that such funds were received at the beginning of the 12-quarter period.
- D. The policies set forth in this section apply to the Endowment Pool, and to "quasi-endowment" moneys donated to the school with the provision it be managed *pari passu* with the Fund, but not to money raised annually for ongoing operations.

## **III. INVESTMENT OBJECTIVES**

- A. In qualitative terms, the overall financial objectives of the Subcommittee are:
  - (1) to provide a relatively predictable, stable and constant return from the Fund, to assist the College in meeting its spending needs; and
  - (2) to increase the size of the Fund through appreciation of the Fund's capital, and by contributing to it excess income
- B. In quantitative terms, the overall financial objective of the Fund is to attain, over the long term, an average annual total return (net of management fees) which is the sum of:
  - (1) the spending rate of 5% per year; plus
  - (2) 1% - 2%, for growth of the Fund; plus
  - (3) the inflation rate.

“Long term” is defined as “rolling” seven to ten-year periods.

#### **IV. ASSET ALLOCATION**

- A. The Fund will be diversified by asset class, geographic concentration, and other risk factors as the Subcommittee shall from time to time determine. The purpose of diversification is to minimize exposure to any one market sector disruption, while ensuring that the Fund captures the benefit of out-performance from a variety of financial sectors.
  
- B. The Board will establish long-term policy allocation targets and ranges for correlation, geographic concentration, and other risk factors. It is intended that targets and ranges be set with a 5-10 year view such that changes to these are infrequent. Rebalancing of the fund due to income, new additions, and sector performance to match the long-term targets, however, could be contemplated more frequently, such as every six months, or as prudence dictates.
  
- C. In addition to seeking diversification of the Fund as described in Section IV, paragraphs A-B above, the Subcommittee also will explicitly consider the following factors when recommending investments
  - 1) Maintaining appropriate liquidity in the Fund
  - 2) Minimizing cost of management
  - 3) Maintaining transparency of investment strategy
  - 4) Ensuring the ease of accessing and reporting investment results
  - 5) Minimizing ethical and reputational risk
  
- D. When making such allocations, the Subcommittee may, but is not required to, consider the assets of the Armand Hammer Trust as part of the College’s overall endowment.
  
- E. The Subcommittee is authorized to retain, re-allocate funds among, or dismiss, individual investment managers, as well as investment intermediaries who delegate the management of funds to other managers. The Subcommittee is also authorized to hire investment consultants.

#### **V. FURTHER EXPLANATION OF ASSET ALLOCATION CRITERIA**

- A. Asset Class Correlation – The Fund should be diversified such that investment results reflect the returns of multiple asset classes. The Subcommittee will invest among assets with minimal correlations, with a

view to balancing the fluctuations of return that occur in any one asset type over short periods of time.

- B. Geographic Concentration – The Fund should maintain exposure to a wide spectrum of geographic areas. The Subcommittee will invest with a view toward limiting the risk of investing in any one part of the world, while seeking to capture the periodic out-performance that may occur in markets in a variety of regions of the world. The Subcommittee will remain particularly diligent when accessing non-US markets to protect the Fund from the attendant risks.
- C. Other Risks – The Subcommittee may determine that the Fund should monitor and be diversified with respect to additional risk factors, such as company size, currency exposure, or credit rating. Explicit recognition of a variety of risk exposures is a prudent approach to achieving the Fund’s overall goals.

## **VI. LIMITATIONS ON INVESTMENT STRATEGIES**

- A. The Fund will not generally invest in securities of any type directly, but will be invested with professional managers.
- B. It is recognized that derivative instruments of various types have become widely used by investment managers and that the prudent use of such instruments can be advantageous for controlling portfolio risk, increasing returns, implementing strategies quickly and reducing costs. Accordingly, the College permits the use of derivative securities in a manner consistent with the overall investment objectives and policies described above. However, an investment manager shall engage in derivative security transactions only if the transactions are consistent with the overall investment objectives of the account. Derivatives should not expose the portfolios to greater risk than would be typical under a strategy utilizing only conventional securities, without the explicit approval of the finance committee.
- C. The Fund shall not make direct investment in real estate, collectibles, or other physical assets, without the written approval of the finance committee. This is not meant to limit investment in REITs, real estate-oriented funds, or other professionally managed investment vehicles which hold such assets, and which the Subcommittee may recommend from time to time.

## **VII. PERFORMANCE MONITORING**

- A. Individual managers are expected to outperform appropriate market indices and peer group comparisons on a risk-adjusted basis as determined by the Subcommittee. In general, manager performance shall be judged over a 3 – 5 year time period, but the Subcommittee shall have the discretion to apply performance standards over shorter periods if appropriate.

- B. Each investment manager and/or the investment consultant, if employed, will provide reports at least quarterly to the Subcommittee. It is anticipated that each significant manager will meet annually with the Subcommittee. College staff will monitor investment managers on an ongoing basis.
  
- C. The managers and/or the investment consultant are required to inform the Subcommittee of any material change in fundamental investment philosophy, firm ownership, organizational structure, professional personnel, SEC registrations, or account structure (e.g., number, asset, size, account minimum).