Grinnell College Investment Policy

Reviewed and approved by the Grinnell College Board of Trustees on May 6, 2022.

Prior Version: Reviewed and approved by the Grinnell College Board of Trustees on May 7, 2021.

Introduction

This Investment Policy (the "Policy") documents fiduciary oversight and establishes objectives and procedures for investment of the College's financial assets.

Governance

Consistent with its fiduciary duties, the Grinnell College Board of Trustees (the "Trustees") has delegated investment responsibility to the Exit 182 Group, LLC (the "Investment Management Company") via Section 6.4 of the By-Laws of the Trustees of Grinnell College (the "College By-Laws") as follows:

> *The Board of Directors of the Investment Management Company shall serve as the Investment Committee of the Board* [of Trustees].

Section 14.3 of the College By-Laws provides:

> *Subject to the oversight of the Board of Trustees and to the terms of and any limitations imposed by the Board of Trustees' authorization, the Investment Management Company Board of Directors shall be responsible for:*
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> a. *Maintaining a policy of prudent investment in stocks, bonds, real assets, non-marketable securities such as private placements and limited partnerships, and other similar financial instruments, interests and/or securities, subject to the approval of the Board of Trustees.*
> b. *Approving sub-policies under the investment policy and reviewing and approving investment transactions pursuant to the approved investment policy and sub-policies.*
> c. *Delegating investment decisions to the Chief Investment Officer and/or independent investment managers pursuant to the approved investment policy and sub-policies. The Chief Investment Officer shall have the authority to, in turn, delegate investment decisions to other officers and employees of the College pursuant to the approved investment policy and investment sub-policies.*
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> *The Board of Trustees may assign additional responsibilities as the Board of Trustees deems appropriate.*

Section 14.4 of the College By-Laws further provides:

> *The Investment Management Company Board of Directors and Chief Investment Officer shall report to the Board of Trustees on the performance and asset allocation of the College's investment portfolio as requested by the Board of Trustees Chair provided that such investment report shall be given at least once each fiscal year.*

Section 4.5.F of the College By-Laws articulates the responsibilities of the Chief Investment Officer as follows:

> *The Chief Investment Officer shall be responsible for arranging for a custodian for the safekeeping of the securities, stocks, bonds, and other property of the College held for investment purposes. The Chief Investment Officer shall report to both the Board of Directors of the Investment Management Company and the President. The Chief Investment Officer shall implement the investment policy and investment sub-policies of the College and administer charitable trusts and similar agreements under which the corporation is a beneficiary.*
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> *In addition to the general responsibilities outlined above, the Chief Investment Officer has the following specific duties:*
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> a. *The Chief Investment Officer shall have the authority to execute and deliver all documents and instruments necessary to effectuate these activities.*
> b. *The Chief Investment Officer shall also render investment reports at such times as the President of the College, the Board of Trustees, or the Board of Directors of the Investment Management Company may direct.*
> c. *The Chief Investment Officer also shall be responsible for executing investment and trust regulatory filings (including, without limitation, any tax filings).*

Section 12.2 sets forth the signature authority of the Chief Investment Officer as follows:

> *All documents and instruments necessary to effectuate transactions approved pursuant to the College's investment policies and investment sub-policies shall be executed and delivered by the Chief Investment Officer or such other officer, officers, employee or employees of the Corporation as the Board of Trustees from time to time may determine.*

The Directors, with the support of the staff of the Grinnell College Investment Office (the "Staff"), shall review the Policy at least annually to ensure the suitability of the guidelines contained herein in light of any changes in the College's financial situation or institutional risk tolerance. Following the review of the Policy, the Directors shall refer the Policy for consideration at the subsequent meeting of the Trustees. Upon the recommendation of the Directors, the Trustees shall affirm the Policy at least annually as well as consider and act upon any proposed changes to the Policy, including without limitation, proposed changes to Appendix One and the introduction of new asset classes or investment types. All changes to the Policy are subject to review and approval by the Grinnell College Board of Trustees prior to taking effect.

Responsibilities

In addition to the general responsibilities set forth in the College's By-Laws, the Directors and the Staff shall be responsible for the following:

- The Directors shall meet, in accordance with the By-Laws of the Investment Management Company.
- The Directors shall establish, as deemed necessary, sub-policies and procedures for the College's investment assets. With such policies, or even in the absence of any such policies, the Directors shall act in every case in its best judgment after appropriate review and consideration to secure the objective set out in the By-Laws.

- On an annual basis, the CIO shall present an investment office operating budget for approval by the Directors. This operating budget shall be presented on the same schedule as the College's operating budget. Internal expenses, including, but not limited to, compensation and travel, shall be administered subject to College policies and processed pursuant to the same controls.
- The process for investment decisions and the role of the Staff in implementing the same shall be set forth in a sub-policy to the Policy, as approved by the Directors.

Investment Pools and Objectives

Investments can be broadly classified into three pools – Endowment Funds, Operating and Reserve Funds, and Annuity Funds – based upon their unique attributes and objectives. The College's broad investment objectives, by investment pool, are as follows:

Annuity Funds

Annuity funds represent assets transferred to the College subject to life income interests and for which the College serves as trustee. Annuity funds shall be invested to preserve and protect these assets by earning a total return appropriate to each trust or vehicle's time horizon, distribution requirements, and risk tolerance.

Endowment Funds

The College intends that the Grinnell College Endowment (the "Endowment") shall be invested to maximize long-term, real returns rather than to generate annual income or focus on short-term returns, recognizing the impact of volatility and liquidity on the Endowment's objective to provide predictable and stable financial support for the College's mission as a fine liberal arts college. Total return is expected to meet or exceed Endowment spending plus inflation, thereby preserving or enhancing the real purchasing power of the Endowment into perpetuity. Total return is also expected to outperform a blended benchmark (consistent with the asset allocation) over multi-year, rolling periods of time. The Policy also recognizes the necessity of gift flow to sustain the Endowment's real purchasing power.

Reserve Funds

Reserve Funds consist of two categories: Operating and Reserve Funds, which are held outside the Endowment, and the Endowment Reserve.

Operating and Reserve funds consist of the financial resources available to satisfy the College's cash requirements (including, but not limited to, funds available for the periodic reinvestment in capital and other strategic needs) and may also include the proceeds of bond issuances. The purpose, type, and number of Operating and Reserve Funds is subject to change over time. These funds are expected to generate a reasonable return subject to the primary objectives of principal protection and maintaining adequate liquidity to meet the expected liabilities.

Created in 2019, the Endowment Reserve is held within the Endowment and invested pari passu with the investment portfolio. The Endowment Reserve is designed to serve as an enduring risk mitigant for the College rather than meeting the short-term operating needs of the institution. As a result of the long-term nature of these funds, the primary investment objective is maintaining and growing purchasing power over time, which is why the College elected to invest the Endowment Reserve in the Endowment.

The Investment Management Company Board of Directors (the "Directors") recognizes the importance of environmental, social, and governance (ESG) factors and Diversity, Equity, and Inclusion (DE&I) factors to the long-term financial performance of business enterprises, and it evaluates investments and investment managers with consideration for ESG and DE&I risk, opportunity, and impact.

In addition, the College may from time-to-time make modest investments in real estate or other vehicles located in Grinnell, Iowa, in furtherance of the College's goal of improving the quality of life for its faculty, staff, and students.

Asset Allocation

A purposeful framework for asset allocation is a key element of an effective investment process. To uphold this approach, in establishing the asset allocation for the Endowment the Directors, working with the staff of the Grinnell College Investment Office (the "Staff"), shall strive to maintain a holistic perspective combining an understanding of general investment principles, informed market judgement, independent thinking, and an understanding of the College's institutional needs and risk tolerance.

The objective of the asset allocation is to establish a strategic mix of investments that ensures sufficient diversification within the Endowment's investment portfolio. The purpose of diversification is to provide a balanced allocation across asset classes that enhances the total return of the investment portfolio while avoiding undue risk. In developing the asset allocation, the Directors and Staff shall contemplate a wide range of factors, examples of which are provided below. The Directors and Staff will give special consideration to the significant degree to which Endowment distributions support the College's operations.

- General economic conditions
- Long-term risks, returns and expected correlations of individual asset classes
- Inflation expectations
- Required return and institutional risk tolerance
- Perpetual nature of the Endowment
- College's spending policy
- Gift expectations
- Liquidity needs
- Characteristics of liabilities

The Directors and Staff expect the Endowment to remain well diversified across asset classes to enhance potential returns across a wider range of scenarios and reduce downside volatility. However, given the Endowment's primary objective of maintaining real purchasing power over multi-year periods, the College expects to maintain a bias toward equity investments (and asset classes with equity-like characteristics), which have higher long term expected returns, and lower exposure to asset classes offering fixed rates of return. Further, the College believes that active management, which seeks to exploit market inefficiencies, can be additive to investment returns, particularly in nontraditional markets and strategies. Additionally, the Endowment's long term investment horizon allows for the inclusion of illiquid asset classes and strategies that offer higher potential returns.

Policy Portfolio

The Policy Portfolio provides a baseline for measuring the performance of the investment portfolio in meeting the Endowment's long-term objectives. Staff calculates the performance of the Policy Portfolio using the Target Allocation and the returns of the benchmark index for each asset class established in **Appendix One**.

The Directors and Staff review the established asset allocation for the Policy Portfolio at least annually. Staff shall provide sufficient information to support this analysis, including, but not limited to, anticipated changes to the College's financial situation, estimated returns/risks for each asset class, and other factors expected to impact future projections. The Directors and Staff expect the Policy Portfolio's asset allocation to generate the highest expected risk-adjusted returns (highest expected portfolio return for a given level of risk or the lowest expected risk for a given level of return) given the anticipated opportunity set and subject to the College's anticipated risk profile.

The Directors may recommend changes or modifications to the Target Allocation or Exposure Range for individual asset classes in accordance with the terms of the Policy and the By-Laws of the Investment Management Company. However, the Policy Portfolio's asset allocation is intended to reflect the Endowment's long-term investment horizon. As a result, substantial changes to the asset allocation of the Policy Portfolio are expected to be infrequent. Further, any such changes are subject to review and approval by the Trustees prior to taking effect.

Appendix One provides the current Target Allocation and Exposure Range for each asset class within the Policy Portfolio. Collectively, the Target Allocations and Exposure Range for each asset class serve as a guide for the intended asset allocation of the Endowment. In setting the Exposure Range, the Directors intentionally established a broad scope for each asset class to allow the Directors and Staff sufficient discretion in identifying investment opportunities for the Endowment.

Hedging

The CIO, with prior approval of the Directors, may enter transactions or positions that are intended to hedge one or more exposures within the Endowment. These positions are expected to be episodic in nature with a well-defined expected holding period. The rationale for these positions may be based on a variety of factors, including, but not limited to, macroeconomic conditions, unintended exposures within the investment portfolio or conditions related to specific investment held in the Endowment. The CIO and Directors may elect to use a wide range of instruments for hedging purposes, including cash securities, derivatives (e.g., swap agreements), and options contracts.

Leverage

The College shall not use direct financial leverage (e.g., repo arrangements or short-term credit facilities) or partially or fully unfunded derivative instruments to enhance returns or increase the risk profile of the Endowment. This limitation does not apply to the underlying investment managers that comprise the Endowment. Staff and the Directors may allocate capital to investment managers employing strategies that involve the use of financial leverage, trading or ownership of instruments with embedded leverage, and the use of unfunded derivative instruments.

APPENDIX ONE
Policy Portfolio Asset Allocation Framework

Asset Class	Target Allocation	Exposure Range
Cash / Fixed Income *Benchmark Index: BC Govt 1-3 Year Index*	**10.0%**	**5.0 – 15.0%**
Public Equity *Benchmark Index: MSCI ACWI Index*	**35.0%**	**22.5 – 50.0%**
Marketable Alternatives *Benchmark Index: HFRX Global Hedge Fund Index*	**17.5%**	**5.0 – 25.0%**
Private Equity *Benchmark Index: Cambridge Private Equity Index*	**30.0%**	**25.0 – 40.0%**
Real Assets *Benchmark Index: Cambridge Natural Resources/Real Estate/Infrastructure Index*	**7.5%**	**0.0 – 10.0%**