VERMONT COLLEGE OF FINE ARTS
Investment Policy

PURPOSE

The Investments of the Vermont College of Fine Arts exist to provide the College with long-term financial stability, a portion of its annual operating budget and resources for such other purposes as may be required as a condition of particular bequests or designation by the Board of Trustees.

INVESTMENT OBJECTIVES, POLICIES AND OPERATING GUIDELINES

The following Objectives, Policies and Operating Guidelines shall apply to the management of the Vermont College of Fine Arts Endowment Fund at such time as the principal amount in the Endowment Fund exceeds One Million Dollars and, by vote of the Finance Committee, may be applied to other College funds.

OBJECTIVES

The investment policy of the Vermont College of Fine Arts is based on three fundamental objectives. The first primary long-term objective is to preserve or, ideally, to augment the real (inflation-adjusted) purchasing power of endowment assets. The second objective is to produce total returns on the investment of the endowment assets at a level sufficient to provide meaningful annual financial support to the activities of the College. The third objective is to achieve those returns in a manner that maximizes return as measured against pertinent benchmarks, while minimizing the risk associated with the various asset classes comprising the Endowment Fund.

FUNDAMENTAL INVESTMENT PRINCIPLES

Time Horizon. Inasmuch as the College is expected to continue as an institution in perpetuity, the time horizon for the investment of endowment assets is infinite. However, since short-term market fluctuations are inevitable, the Finance Committee will endeavor to strike an appropriate balance between the long-term perspective and the need to address the challenges and opportunities inherent in the rises and falls of the capital markets and broader economy.

Diversification. The Finance Committee will diversify the investments across asset classes. By allocating funds to classes of investments with returns that are not highly correlated over time, the Committee will aim to mitigate some of the volatility inherent in the capital markets. While that diversification has the potential of limiting benefits derived from rising markets, it also provides a means for avoiding the full brunt of declining markets, resulting in greater stability.

Risk. Long-term and substantial losses to investments will have a more detrimental impact on the College than the reward of speculative positive returns. Donors also want to see their funds managed well. Therefore, the Finance Committee will exercise prudence in its investment practices and exercise a philosophy toward risk that is similar to that at like institutions.

I. Endowment Funds

SPENDING POLICY

The ideal endowment spending policy will be based on a balancing of priorities that ensures that the current needs of the College are not sacrificed to the interests of the future, and that future needs are not sacrificed to those of the present. Spending policy is designed to provide a consistent inflow of cash from endowment earnings to support College operations while preserving or increasing the real purchasing power of the endowment portfolio. Details and timing of the withdrawal will be determined by the Administration in consultation with the Finance Committee. Donor-designated endowment funds may be spent differently than those endowment funds that are board designated.

Unless otherwise specified by a donor, the spending amount will be determined by applying the spending rate to the three-year moving-average market value on December 31 of assets that have been in the endowment portfolio for at least three years. For assets that have been in the portfolio for less than three years, the spending amount will be determined by applying the spending rate to the average quarterly market value of those assets for the period that those assets have been designated as endowment, provided the assets have been in the possession of the College for at least six months.

The spending rate is set by the Finance Committee after prudent consideration of the investment portfolio performance in recent years, the expected future performance, the operating capital requirements of the institution, historical and expected inflation and the ratio of restricted-to-unrestricted funds in the portfolio, and remains in effect until changed by subsequent vote. In any event, the spending rate will not exceed 7% of total endowment value.

It is expected that the College will be dependent on its endowment funds for an important contribution to its annual operating budget. Spending from the endowment should not just support general operations, but should be allocated to support special projects, new initiatives or budget shortfalls. College administration shall present to the Finance committee a specific plan for endowment spending during each budget cycle.

ASSET ALLOCATION

The allocation of assets in the Endowment Fund will reflect an appropriate balance among the investment objectives of the College, exposure to investment risk, and need for liquidity. These balances will be determined in consultation with Investment Advisors. A recommendation from the Chief Financial Officer regarding the results of these consultations will be presented to the Finance Committee annually. The asset allocation determination process will commence when the Endowment reaches 80% of its initial investment goal.

To achieve investment objectives, Endowment Fund assets shall be divided into two broad asset classes: (a) diversified equity securities and (b) fixed income securities. The purpose of investment in diversified equity securities will be to provide appreciation of principal and, to a lesser extent, current income; to support the spending requirements; and, potentially, increase the purchasing power of the Endowment Fund. The diversified equity funds may be invested in publicly-traded equities, private equities, hedge funds, real estate, natural resources and other equity investments or equity substitutes. Endowment fund assets are not permitted to be invested in leveraged financial products of any kind.

The purposes of investing in fixed-income assets will be to provide a hedge against the effects of a prolonged economic contraction, to reduce the overall volatility of the returns from the Endowment Fund, to provide liquidity, and to contribute to the overall return on investment.

The Finance Committee will assess the asset allocation at least semiannually and will periodically balance the portfolio toward prudent target allocations, typically through the deployment of new cash inflows. Under normal circumstances, the portfolio will be rebalanced to within target ranges at least once a year. In unusual circumstances, the Finance Committee may position the portfolio outside the broad ranges established for asset allocations. Such deviations must be approved and re-approved quarterly by the Finance Committee until the targets are set to fall within the target ranges.

The Finance Committee shall retain the prerogative to redefine the long-term allocation targets as warranted by the long-term needs and circumstances of the College, fundamental changes observed or anticipated in the capital markets, or other pertinent influences or information.

II. Non-Endowment Funds

SPENDING POLICY

Spending from non-endowment investments shall be dictated by donor agreements where they exist. Spending from other non-endowments investments will be determined by the Board of Trustees as part of the annual budget process.

ASSET ALLOCATION

The allocation of assets for non-endowment funds will be generally in high-quality fixed income investments.

INVESTMENT MANAGERS

The endowment of the College will be managed primarily by external investment managers. The Finance Committee will select the College's investment managers, provide guidelines for their investment practices, and monitor their performance.

Investment managers will be responsible for active security selection within their asset classes and, in some cases, for periodic shifts among asset classes. Equity managers may, at their discretion, hold investment reserves of either cash equivalents or bonds (including convertible issues) without limitation in terms of asset size or period of time, but with the understanding that performance will be measured against relevant equity indexes. Under certain conditions specific investment managers may be given more limited directions by the Finance Committee. Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best realized net price.

Performance of Managers. The Finance Committee will regularly review the performance and practices of investment managers to confirm that its expectations regarding those individual managers are being fulfilled. The performance of each manager will be reviewed on an annual basis. The primary performance objective of each investment manager will be established at the time that the manager is engaged. In general, the Finance Committee expects its managers to produce a cumulative annualized total return, net of fees and commissions, that exceeds mutually agreed upon benchmarks over full market cycles. These benchmarks will be reviewed and revised from time to time as necessary.

Investment managers shall report the following information quarterly: total return net of all commissions and fees; additions to and withdrawals from the account; current holdings at cost and at market; and purchases and sales during the quarter. As requested, investment managers should submit regular written communications outlining their evolving investment strategy and they should be available for periodic consultation with the Finance Committee. In addition, investment managers are required to inform the Finance Committee of any material change in firm ownership, organizational structure, key personnel, account structure and investment philosophy.

INVESTMENT ADVISORS

The Finance Committee of the Board of Trustees is permitted to engage an outside independent investment advisor/counsel from time to time as deemed appropriate.

RESPONSIBILITIES

The successful execution of endowment investment policy relies on the effective interaction among the Trustees, Finance Committee, President and Administrative staff of the College.

Finance Committee. Subject to the direction and control of the Trustees, the Finance Committee shall make recommendations on investment policy, endowment, trust funds and other assets. In performing these duties, the Finance Committee:

1. Sets the College's policy portfolio, diversifying across asset classes, in order to establish the appropriate balance between risk and return.

2. Employs, retains, monitors and discharges all managers of College funds.

    a. Monitors performance of major managers against established goals.
    b. Reviews fees paid by the College to all managers and partnerships.
    c. Meets periodically with representatives of the managers.

3. Reviews and recommends to the Trustees matters pertaining to the Endowment Spending Policy.

4. Approves valuation procedures.

5. Monitors administrative functions, including custodial, cash management, legal issues, and the reporting related to the endowment.

6. Keeps abreast of industry trends, general market conditions and the performance, asset allocation and organizational structure of peer endowments.

7. Reports to the Board of Trustees on a regular basis and presents an annual report on overall investment activities for the past year.

Chief Financial Officer of the College. Reporting to the President, serves as the Administrative liaison to the Finance Committee and functions as the primary investment officer the College.

College Staff in conjunction with the Chief Financial Officer. Maintains investment records and reports; oversees custodial functions; serves as liaison with outside consultants and counterparts at other colleges and universities; oversees day-to-day cash management and debt; participates with Chief Financial Officer to calculate annual endowment spending.