



**OMICRON DELTA KAPPA**  
The National Leadership Honor Society

**Board Policy Manual**  
**Appendix E**  
**Investment Policy**

**PURPOSE**

This investment policy has been established by the Omicron Delta Kappa Society and Educational Foundation, Inc. (the “Society”) Board of Trustees (the “Board”) in order to:

1. Establish a clear understanding of the investment goals and objectives of the Omicron Delta Kappa Society and Educational Foundation, Inc.
2. Provide a basis for the Finance Committee (the “Finance Committee”), the Investment Subcommittee (the “Investment Subcommittee”), the Board, and donors to the Society to evaluate the Society’s investment stewardship, including any investment consultants and/or investment managers, and the overall investment program.
3. Define and assign the responsibilities of all involved parties.

**INVESTMENT GOALS**

**Long-Term Assets**

The primary investment goal of the Society’s long-term asset management program is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the average of the broad, domestic Consumer Price Index and the Higher Education Price Index) plus any spending pursuant to the Spending Policy (currently, not to exceed 5% based on a four-year rolling average) and thus, at a minimum, maintaining the purchasing power of those assets for which the Society is responsible.

The assets are to be managed in a manner that will meet the primary investment goal, and where possible, to seek growth above the objective, while minimizing risk levels.

Long-term assets are defined as those expected to be held for a minimum of five (5) years.

### **Intermediate-Term Assets**

The goal for intermediate-term assets, defined as those expected to be held for two (2) to five (5) years, is, at a minimum, to maintain the purchasing power of the assets with minimal risk.

### **Short-Term Assets**

The goal for short-term assets, defined as those expected to be held for less than (<) two (2) years, is to maintain liquidity for cash flow purposes while achieving a return available at virtually no risk.

### **ASSIGNMENT OF RESPONSIBILITIES**

**The Finance Committee** – With lead direction from the Investment Subcommittee, the Finance Committee will provide the Board with recommendations as to the following:

- Establishing and administering this Investment Policy,
- Determining the spending policy, and
- Determining an overall asset allocation.

**The Investment Subcommittee** – The Finance Committee Chair shall annually appoint an Investment Subcommittee of at least three members, at least two of whom shall be Trustees, which shall be charged with:

- Annually reviewing this Investment Policy and making any recommendations for amending it to the Finance Committee,
- Recommending an asset allocation to the Finance Committee,
- Establishing annually recommendations to the Finance Committee for spend levels,
- Conducting initial interviews with prospective investment advisors or managers,
- Electing and terminating investment advisors, custodians, consultants, or other specialists as they may be employed to assist in meeting its responsibilities and obligations, and
- Developing an annual statement describing the Foundation’s investment performance for submission and action by the Finance Committee.

**Investment Advisor** – shall mean any individual or organization employed to act as a fiduciary and who shall have discretion over the day-to-day implementation of the Society’s investment strategy within the parameters established by the Investment Subcommittee and shall be held accountable for:

- Adhering to the investment guidelines, processes and practices established in this Investment Policy Statement to support the Society's investment goals and objectives,
- Implementing investment strategy including asset and sub-asset allocation and investment style (i.e., traditional and non-traditional strategies in equities, fixed income, cash equivalents, differentiation in capitalization, geographic domicile, or credit quality, growth versus value or active versus passive strategies, etc.),
- Selecting, performing the necessary due diligence on, and monitoring the investments used to implement the investment strategy of the Society, and
- Providing the Society with regular, comprehensive and frequent (at least quarterly) communication detailing the investment performance and risk analysis for the portfolio, as well as a commentary on the overall markets and/or future portfolio actions. Performance results for the portfolio, asset classes, and underlying investments should be compared to the established performance benchmarks and relevant peer universes.

Reporting should be provided to the Investment Subcommittee by the Investment Advisor not later than thirty (30) days after the end of each calendar quarter, and the Investment Advisor is expected to meet with the Investment Subcommittee on an as needed basis, but not less than quarterly, to discuss all items outlined above with a minimum of a once-a-year, in-person conversation. The Investment Advisor and the Investment Subcommittee shall be available to meet with the Board as requested.

**Investment Manager** – shall mean any individual or organization employed to manage the investments of all or part of the Society. Investment Managers will have discretion to purchase, sell, and hold the specific securities that will be used to meet the Investment Manager's specific investment objectives.

**Master Custodian** – shall mean any organization employed to physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Society, collect dividends and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales.

**Conflicts of Interest** – All service providers shall be independent of any potential conflicts of interest and may be asked to affirm their independence on a periodic basis.

## ASSET ALLOCATION GUIDELINES

The Society's strategic asset allocation shall be consistent with achieving the above-stated Investment Goals. The Investment Subcommittee shall approve a broad strategic asset allocation framework for the Society's investible assets with acceptable minimum and maximum permitted allocation ranges for each asset class.

<b>Asset Class</b>	<b>Allocation Range</b>	<b>Initial Long-term Target</b>
<b>Equities</b>	50% to 80%	60.0%
<b>Fixed Income</b>	10% to 36%	24.0%
<b>Alternative Investments</b>	0% to 15%	12.0%
<b>Cash</b>	0% to 5%	4.0%

The Investment Subcommittee may grant authority to the Investment Advisor to, within these minimum and maximum percentage amounts, tactically allocate assets. The Investment Advisor has the ability to adjust the portfolio's weighting within each allocation range in the short and medium term in response to changes in the opportunity set within the global financial markets.

The maximum and minimum asset allocation ranges are guidelines and, from time to time, deviations from those guidelines may occur as a result of market performance or tactical asset allocation decisions. For example, in times of severe market turmoil, the Investment Advisor may elect to substantially increase the portfolio's allocation to cash in an effort to further protect the portfolio. The Investment Advisor shall notify the Investment Subcommittee when such deviations from the asset allocation ranges are recommended or occur. The asset allocation guidelines will be monitored on a monthly basis by the Investment Advisor, and the portfolio will be rebalanced as soon as practical should the allocations fall outside their stated allowable ranges.

Further, the Investment Advisor may utilize various investment styles, capitalization and geographic focuses and varying types of investment vehicles to achieve these goals (e.g., mutual funds, common trust funds, limited partnerships). It is anticipated that most non-traditional strategies will utilize both capital gain and yield oriented securities and will be accessed through liquid investment vehicles with readily ascertainable market values as well as selected non-liquid investment vehicles (private real estate, hedge funds, private equity funds). The Investment Advisor will review asset allocation with the Investment Subcommittee on a quarterly basis.

## INVESTMENT BENCHMARKS

The performance of the portfolio is measured against three benchmarks, each with a distinct perspective from which to evaluate the Investment Manager's performance.

The Portfolio's performance is first compared to the Investment Subcommittee's stated real return objective of achieving an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation (as measured by the average of the broad, domestic Consumer Price Index and the Higher Education Price Index) plus any spending. A comparison to this benchmark over a full market cycle will prove if the Manager is producing the required rate of return to adequately reserve for spending on an annual basis, while also preserving the Society's corpus.

Secondly, a comparison should be made to a blended benchmark of the 65% MSCI All Country World Index and 35% Barclays U.S. Aggregate Bond Index. This blended benchmark is used as a tool to measure not only relative performance, but the risk adjusted performance of the portfolio over a full market cycle.

The primary point of comparison for the portfolio is the mutually agreed upon Investment Policy Benchmark, which is used to measure the value of manager selection and asset allocation. The benchmark is calculated by applying the performance of each asset class benchmark to the respective portfolio asset allocation targets, which are generally updated annually. The benchmark components for each allowable asset class are provided below.

- Russell 3000 Index
- MSCI ACWI ex-U.S. Index in U. S. Dollars
- Barclays Capital Aggregate Bond Index
- 90-Day Treasury Bill Index

In addition to measurement against the above benchmarks, the Investment Advisor's performance will be evaluated relative to the performance of a representative peer group of endowments/foundations of a similar size as measured by the National Association of College and University Business Officers (NACUBO) annual endowment survey and any other available surveys. The Investment Advisor will also be evaluated based on risk-adjusted performance. Risk measures may include alpha, beta, standard deviation, and Sharpe Ratio. It is expected that the beta and standard deviation of the portfolio will be no more than 1.20 times that of the passively managed balanced index identified above.

## INVESTMENT MANAGER GUIDELINES

Investment Managers will be reviewed by the Investment Subcommittee on an ongoing basis and will be evaluated with information provided by the Investment Advisor based upon the following criteria:

1. Continuity of personnel and practices at the firm.
2. Adherence to the philosophy and style which were articulated to the Society at, and subsequent to, the time the Investment Manager was retained.
3. Ability to exceed the investment performance objectives (net of fees) stated below consistently over rolling five-year periods:
  - a. The total return of each manager's portfolio of assets over time shall exceed that of an appropriate passively managed index (e.g., the Standard & Poor's 500 Stock Index for domestic large-cap core style equity managers);
  - b. The total return of each manager's portfolio of assets is expected to maintain volatility of returns of no more than 1.20 times that of the manager's appropriate passively managed index (as measured by beta and standard deviation) and is expected to maintain positive risk-adjusted performance (as measured by alpha and Sharpe ratio);
  - c. Each manager will be evaluated versus a peer group of similar managers and is expected to rank in the top third of these peers;
  - d. Nothing in this subsection shall preclude a consultant or the Investment Subcommittee from evaluating any Investment Manager over a shorter-term basis using the criteria in this section and making changes regarding investment management.

## ALLOWABLE INVESTMENTS

1. Cash Equivalents • Treasury Bills • Money Market Funds • Money Market Accounts • Commercial Paper • Repurchase Agreements • Certificates of Deposit • Guaranteed Investment Contracts issued by Best Rated "A" insurance companies (GICs)
2. Fixed Income Securities • U.S. Government and Agency Securities • Corporate Notes and Bonds • Mortgage Backed Bonds • Asset Backed Bonds • Preferred Stock • Non-U.S. Government Securities
3. Equity Securities • Common Stocks • Exchange-Traded Funds • Convertible Notes and Bonds • Convertible Preferred Stocks • Master Limited Partnerships • American Depository Receipts on Non-U.S. Companies • Stocks of Non-U.S. Companies (Ordinary Shares)
4. Pooled or Mutual Funds • Funds that invest in securities as allowed in this statement.
5. Derivative Instruments • The widespread use of exchange traded futures and options, the increased liquidity of the interest rate swap market, and the profusion of mortgage derivatives have caused derivative securities to become a common and valuable part of the portfolio management process in fixed income investing. Thus, derivative securities will be permitted under this statement of investment policy in pooled fund vehicles for fixed income investing. With respect to all separately managed fixed income portfolios, unless a specific type of derivative security is allowed in this document, an Investment Manager must seek permission from the Investment Advisor who will notify the Investment Subcommittee with a recommendation to include derivative investments in the Society's portfolio. In seeking this permission, an Investment Advisor must present detailed information as to the expected return and risk characteristics of such investment vehicles. However, the following types of strategies generally will not be permitted under any circumstances:
  - a. Purchasing securities on margin or executing short sales;
  - b. Pledging or hypothecating securities, except for loans of securities that are fully collateralized;
  - c. Purchasing or selling derivative securities for speculation or leverage; and
  - d. 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 the Society's portfolio.

## SPENDING POLICY

The annual amount available for distribution from each endowment fund, whether donor or board designated, shall be up to five percent (5%) of a four-year rolling average of the fund calculated at December 31. The Investment Subcommittee shall determine how much will be available for inclusion in the Society's operating budget. Staff will develop those budgets based on said limits for review by the Finance Committee with subsequent approval by the Board of Trustees of the Omicron Delta Kappa Society and Educational Foundation, Inc.

**Updated by the Omicron Delta Kappa Society and Educational Foundation Board of Trustees on January 26, 2022.**