Middlebury

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

The Middlebury College Endowment Fund ("the Endowment") is a commingled fund comprising hundreds of restricted and unrestricted individual endowments whose earnings support the diverse programs and initiatives of the Middlebury College community in perpetuity. The Statement of Investment Objectives and Policies detailed below represents a starting point for balancing the needs of current and future Middlebury students and seeks to assist the College in pursuing its mission of academic excellence.

DIVISION OF RESPONSIBILITIES

Investment Sub Committee

- The Investment Sub Committee of the Board of Trustees (the "Sub Committee") is responsible for oversight of the Endowment.
- The Sub Committee shall consist of not less than three nor more than five Trustees. Sub Committee members and their chairs will be appointed for one year (or until their successors are appointed) by the Chair of the Board in consultation with the President. A quorum is defined as a majority of members of the Investment Committee.
- The Sub Committee reports to the Trustees at each Board meeting.
- The Sub Committee shall establish and approve appropriate investment policies, objectives, and strategies for all endowment and investment portfolio assets. It shall regularly review the implementation of this Investment Policy and monitor the achievement of its objectives.
- The Sub Committee will meet at least four times a year.
- Other responsibilities of the Sub Committee include:
    - Selection of custodians and/or consultants
    - Oversight of debt management with administration, budget, and finance committees
    - Oversight of the deferred giving program and monitoring of funds held in trust
    - Management of the spending policy with the help of the budget and finance committees
    - Annual review of defined contribution pension plan performance

Investment Office

- The Investment Office is responsible for implementing and administering the Investment Policy.
- The Investment Office will serve as the primary contact for all money managers and the custodian.

STRATEGIES

- The long-term horizon of the Endowment allows for a large allocation to equity-oriented strategies where the potential for long-term capital appreciation exists. Other assets, including but not limited to hedging, derivative, or diversification strategies, will also be used to reduce risk and overall portfolio volatility.

- The Endowment will be diversified across asset classes and managers.

RISK CONSIDERATIONS

- The Endowment will be deployed in a manner that seeks to avoid 25% or greater peak-to-trough declines in inflation-adjusted unit value excluding spending.

- The Endowment will be structured to avoid annualized shortfalls exceeding 3%, relative to the mean return of endowments with greater than $1 billion in assets reporting to NACUBO, over rolling 10-year periods.

LIQUIDITY

- Under normal circumstances, not more than 70% of the Endowment's net assets will be held in vehicles utilizing lockups exceeding 12 months. As a general rule, not more than 40% of the Endowment's net assets will be held in vehicles utilizing lockups exceeding 60 months, recognizing that private partnership cash flows are unpredictable. Lockup is defined as an expected period until all or substantially all of the value from an investment vehicle can be received in cash by the Endowment.

RETURN OBJECTIVE

- The Endowment will be managed to maximize annualized returns net of all costs over rolling 10-year periods while adhering to the Endowment's stated risk parameters.

APPENDIX A - OTHER POLICIES

SPENDING POLICY

The College's spending policy governs the rate at which funds are released to the operating budget from the Endowment. Distributions in support of current operations reduce the value of the Endowment and the amount reinvested for future growth. The College's annual operating budget is balanced each year by releasing enough Endowment distribution to equalize revenues and expenses. As such, within any given year the amount of Endowment distribution is the result of combined revenue and expense outcomes rather than a prescribed percentage of the Endowment that is fixed at the beginning of the fiscal year. Over the longer term, however, a targeted maximum spending rate from the Endowment will be set and provides a key budget and planning constraint.

The spendable base is the portion of the Endowment whose earnings support College operations. It currently represents approximately two thirds of the overall Endowment portfolio. Additional quasi-endowment funds support College capital maintenance and are not part of this spendable base.

For the fiscal year starting each July 1, the College will estimate the Endowment distribution to the operational budget by taking a percentage of the average market value of the spendable base of the Endowment over the 12 quarters ending on the December 31 prior to the beginning of the year being budgeted.

Rule: <u>The long-term spending rate target should not exceed five percent of this 12-quarter average.</u> While the five percent spending rule is a long-term objective, the spending rate may exceed the five percent threshold for short time periods. Factors causing an increase in the spending rate may include failure to meet budgeted revenue or expense goals, a prolonged economic contraction, poor Endowment performance, and a reduction in gifts to the Endowment. When this occurs, the Sub Committee, in coordination with the Resources Committee, will work with College Administration to develop a plan to reduce the spending to five percent or less within a reasonable, but specified, timeframe.

Example: If the average market value of the spendable base of the Endowment for the preceding 12 quarters is $450,000,000, and there are no extraordinary events taking place for which a temporary increase in the five percent spending rate is approved, that year's proposed maximum distribution to the operational budget will be $22,500,000.

PROXY VOTING POLICY

In general, the external investment managers are authorized to vote proxies on behalf of the Endowment. Proxy votes shall be considered and made in a manner consistent with the best interests of the Endowment. The Sub Committee has approved a set of principles regarding environmental, social and governance considerations to be shared with the managers of the endowment to guide them in voting proxies (see Appendix B).

ACCEPTING NON-MARKETABLE GIFTS OR ASSETS

At times, the Endowment may be presented with gifts that are illiquid due to a restriction or the nature of the asset. Such gifts are often in the form of restricted equity securities in privately held companies, but may include real estate or other assets. Such gifts will be dealt with on a case-by-case basis. Prior to acceptance, the Investment Office will review the nature of non-marketable gifts to ensure there are no legal liabilities or potential pitfalls involved. For example, a gift of a majority interest in a for-profit business could potentially have unrelated business taxable income implications and gifts of real estate and mineral interests may have negative environmental consequences.

USE OF DERIVATIVES

The Investment Sub Committee authorizes the use of any type of derivative instruments, including without limitation, over-the-counter and exchange-traded derivative instruments that may exist on the date hereof or that may be created in the future. Such instruments may be employed (i) for hedging purposes, (ii) as an alternative to the underlying direct investments where such derivative instruments offer (A) advantages with respect to timing, flexibility, lower execution costs or improved control or (B) other benefits, or (iii) in any other circumstance in which the Investment Sub Committee believes that the use of such instruments is in the best interest of the College.

CONFLICTS OF INTEREST

Trustees serving on the Investment Sub Committee are responsible for making recommendations and decisions which, in their judgment, best serve the College's long-range interests and objectives. Investment Sub Committee members are expected to embrace the highest ethical standards in their oversight of the Endowment. Conflicts of interest and the appearance of conflicts of interest are to be avoided.

From time to time, the Sub Committee may consider matters in which members of the Sub Committee, or persons affiliated with them, have a direct or indirect financial interest. Full disclosure of any affiliation a Sub Committee member has – as a client, Board member, employee, or otherwise – with a prospective investment manager, consultant or other service provider is mandatory. Such a provider may be excluded from consideration if the relationship is deemed to pose a potential threat to the integrity of the Sub Committee or the Endowment. Good governance requires that College investment transactions be performed at "arm's length," ensuring that the College's best interests are not compromised.

DEFERRED GIVING PROGRAM

The College's deferred giving program comprises charitable remainder trusts, pooled income funds, charitable gift annuities, and other deferred giving vehicles which benefit one or more payment beneficiaries (usually the donor(s)) for a term of years or life and the ultimate beneficiary (usually the College) when the gift matures. The program also includes charitable lead trusts, which benefit the College for a term of years and then another beneficiary who receives the principal when the trust matures. The Sub Committee has ultimate responsibility for the oversight of the program, but will generally delegate ongoing management to College Administration (Controller's Office, Treasurer's Office, and Office of College Advancement). Outside service providers may be utilized to assist in the administration and investment management of the College's deferred giving program. The Sub Committee will be provided with an overview of the asset management of the deferred giving program at least annually.

APPENDIX B – INVESTURE'S RECOMMENDED PROXY VOTING PRINCIPLES

The primary fiduciary responsibility of our clients' investment committees comprises maximizing returns while managing risk. Nevertheless, the possession of significant assets entails the responsible exercise of the voting rights which come with common stock ownership.

Voting rights give shareholders the opportunity to effect responsible governance of publicly owned corporations. Active shareholder engagement strengthens the relationship among endowed organizations, their capital, and the companies and communities in which they invest. Many of Investure's clients are mindful of the broader impact of their invested capital. Therefore, the clients have engaged with Investure to develop the following Proxy Voting Principles.

These clients' Proxy Voting Principles are presented in two sections. The first addresses issues of corporate governance, while the second those of environmental and social responsibility. These clients regard the principles as minimum standards. Nevertheless, these clients understand that flexibility is necessary since no single standard can apply to all industries in all parts of the globe or even to companies at different stages of their life cycles. The financial sustainability of the companies in which we are invested must remain a focus.

MIDDLEBURY COLLEGE INVESTMENT POLICY STATEMENT (con't.)

CORPORATE GOVERNANCE

Many Investure clients support resolutions that foster (and oppose resolutions that inhibit) reasonable best practices in corporate governance and operations, including:

- Protecting the rights of all shareholders;
- Ensuring the integrity and clear disclosure of the corporation's risk management, accounting, and financial reporting systems, including the independent audit, and implementing appropriate systems of control; in particular, systems for monitoring risk, financial control, and compliance with the law;
- Maintaining independent, diverse, committed, and focused boards and committees which represent the shareholders;
- Adopting comprehensive code of conduct and conflict of interest policies;
- Prioritizing transparency of corporate practices;
- Creating clear lines of responsibility and accountability within the board and management structure; and
- Establishing fair and transparent compensation schemes that incorporate financial and non-financial performance metrics of a company.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

Environmental and social responsibilities are important drivers of long-term value creation. The global economy increasingly relies on resources that face supply constraints as global consumption increases. In addition, to remain competitive on a global basis it is critical to attract and retain talented employees.

Many Investure clients support resolutions that encourage (and oppose resolutions that inhibit) the implementation of reasonable sustainable practices and environmental and social responsibility, including:

- Preparing sustainability reports and adoption of policies in accordance with reasonable codes of conduct and reporting models;
- Siding with transparency on environmental practices;
- Adopting policies that take into account the importance of protecting stakeholders and the natural environment;
- Eliminating workplace discrimination based on age, race, sex, sexual orientation, religion, and ethnicity;
- Supporting human rights standards, including protecting indigenous people's rights and respecting cultural sensitivities;
- Eliminating exploitative labor practices;
- Providing safe workplaces; and
- Siding with transparency on political contribution and activities.

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