Binghamton University Foundation
Investment Report
Fiscal year ended June 30, 2019
I. The Foundation’s Investment Portfolio

The management of the investment pool of funds administered by the Foundation of the State University of New York at Binghamton, Inc., also known as the Binghamton University Foundation (the “Foundation”) is governed by an Investment Policy approved by its Board of Directors.

The purpose of the Policy is to:

- Define the Foundation’s investment objectives.
- Specify standards to be used in the investment and management of the Foundation’s investments.
- Establish the respective responsibilities (with respect to the investment of the Foundation’s assets) of the Board of Directors, Investment Committee, Investment Consultant, and the underlying Investment Managers retained to manage all or a portion of the Foundation’s assets allocated to it (collectively, the “Investment Manager(s)”).

The Foundation’s investment portfolio (the “Portfolio”) is designed to provide long-term financial security to the Foundation in order to provide continual support of its activities and programs to benefit Binghamton University. The Portfolio contains unrestricted assets and donor restricted assets in the form of separate “endowment funds” established by donor gift instruments. Each endowment fund must be managed according to the terms of the gift instrument establishing the fund.

The Foundation’s investment objectives are to safeguard its assets and preserve the real purchasing power of its assets while earning investment returns that are commensurate with the Foundation’s risk tolerance and sufficient to meet its operational requirements. More specifically, the Foundation’s investment objectives include the following:

- **Time Horizon.** The Foundation intends to invest for the long-term.
- **Preservation of Purchasing Power.** The Foundation aims to preserve the real purchasing power of its assets over time by seeking returns on its investments that are in excess of the spending rate (described below) and the rate of inflation.
- **Long-Term Growth.** The Foundation seeks to achieve growth in its assets in excess of inflation by emphasizing long-term investment fundamentals in structuring its investments.
• **Risk Tolerance.** The Foundation seeks to control risk and reduce the volatility in its Portfolio through diversification. However, short-term volatility is characteristic of the securities markets and will be tolerated if such volatility is consistent with the volatility of similar investment portfolios (such as the volatility of performance benchmarks).

Spending from the portfolio is managed based on a “total return” concept, which envisions the sources of spending as being derived from interest, dividends and capital gains. Annual spending from the investment portfolio grew during the last decade from $6.7 million to $13.4 million. The Foundation’s spending and investment policies provide funding for current scholars while preserving endowment purchasing power for future generations.

Totaling $154.3 million on June 30, 2019, the Foundation investment portfolio contains hundreds of funds with various purposes and restrictions. Approximately 77.4% of funds constitute true endowment, gifts restricted by donors to provide perpetual funding for designated purposes.

Although distinct in purpose or restriction, endowment funds are commingled in an investment pool and tracked with unit accounting much like a large mutual fund. Endowment gifts of cash or securities are valued and exchanged for units that represent a claim on a portion of the total investment portfolio.
II. Investment Policy

In early 2015, the Investment Committee interviewed five (5) consultant firms and ultimately recommended Slocum to the Foundation Board of Directors. During the fiscal year ended June 30, 2016, the investment portfolio transitioned from past managers, an investment policy was approved and Slocum, then Pavilion, provided initial manager recommendations for the portfolio. The legacy portfolio contained illiquid strategies that will remain with the original managers, holdings with lock-up periods will be transitioned over time.

Based on significant risk/return, Pavilion, a Mercer Practice, recommends three broad, fundamental asset classes for modeling asset allocation:

**Equity**
- Traditional equity, international equity, long/short equity, private equity, and equity-oriented absolute return strategies. Equity investments can be made through highly liquid mutual funds and separate accounts, less liquid commingled funds, hedge funds, and illiquid limited partnerships.

**Fixed Income**
- Traditional fixed income, long/short fixed income, private fixed income, and fixed income-oriented absolute return strategies. Sectors and strategies include Treasuries and other sovereigns, Agencies, Corporates, Mortgage-backed, Asset-backed, High-Yield, Structured Credit, and others. Investment vehicle types are similar to those listed for Equity.

**Real Assets**
- Defined broadly to include commodities, real estate, timber, and private investments. Real assets have multiple roles in portfolios including inflation hedging, return enhancement, portfolio diversification, and income generation. This asset class tends to be volatile on its own, but it does provide diversification benefits to a portfolio.
This asset allocation is coupled with the following investment philosophy and approach:

**Asset Allocation: Strategic (long-term) asset allocation combines the Foundation’s objectives and constraints with long-term capital market expectations.** The Foundation’s asset allocation targets (70% Equity, 20% Fixed Income, 10% Real Assets) balance the risk of long-term shortfall with the risk of short-term drawdown in a variety of possible economic scenarios.

**Investment Managers: The Foundation uses a combination of actively-managed funds and low-cost passive index funds.** Active management is used in areas of the market in which there is a higher likelihood of outperforming market benchmarks after all fees. These include international stock and bond markets.

**Diversification: The Foundation’s investments are spread across the globe.** There are some managers in the portfolio that actively shift their allocations from the U.S. to non-U.S. markets when they believe that there is greater potential return outside the U.S., taking into account potential risks such as currency exposure. Over time, this investment approach has been shown to outperform U.S.-centric investment portfolios.

**Liquidity: The Foundation seeks to maintain sufficient liquidity in the portfolio.** The Foundation needs liquidity to meet distribution obligations each year, which benefits the University. Liquidity also allows the Foundation’s Investment Committee to take advantage of investment opportunities provided by dislocations in the capital markets. The portfolio does have an allocation to illiquid investments because those investments are expected to earn above-market returns over time.
III. Spending Policy

The spending rule is at the heart of fiscal discipline for an endowed institution. Spending policies define an institution’s compromise between the conflicting goals of providing support for current operations and preserving purchasing power of endowment assets. The spending rule must be clearly defined and consistently applied for the concept of budget balance to have meaning.

The Endowment spending policy, which allocates Endowment earnings in support of the campus, balances the competing objectives of providing a stable flow of income and protecting the real value of the Endowment over time. The spending policy manages between these two objectives by combining a long-term spending rate target with a smoothing rule, which adjusts spending in any given year gradually in response to changes in portfolio market value.

The target spending rate approved by the Board of Directors falls within a range of 4.0-5.50% and currently is 4.0%. According to the smoothing rule, the endowment spending rate is applied to the average fiscal year-end market value five years prior. The smoothing rule and the diversified nature of the portfolio are designed to mitigate the impact of short-term market volatility on the flow of funds to support the campus.

Despite the conservative nature of the Foundation’s spending policy, distributions to the campus rose from $6.7 million in fiscal 2010 to $13.4 million in fiscal 2019.
IV. Investment Performance

The Binghamton University Foundation, together with over 700 U.S. educational institutions representing over $6 billion in combined endowment assets as of June 30, 2019, participated in the annual NACUBO-TIAA Study of Endowments (NTSE). The NTSE is a primary resource for those responsible for financial and investment and governance decisions at colleges and universities across the country. The report is published each spring for the previous fiscal year end, June 30, 2019 fiscal year being the most recent data available.

For fiscal year end June 30, 2019, the Foundation’s portfolio returned 6.0% versus the following benchmarks monitored by the Investment Committee:

1) Allocation Index: comprised of each manager's appropriate style index using actual beginning of month weights (4.8%)

2) Policy Index: comprised of 70% MSCI AC World IMI, 20% Bloomberg Barclays US Aggregate Index, and 10% Real Assets Custom Benchmark (5.3%)

3) CPI + 4% (5.7%)
Asset allocation comparison as of June 30, 2019:

- Asset allocation varied significantly by portfolio size, consistent with past years’ surveys
- Equities vs. fixed income:
  - Endowments over $1 billion allocated 13% to domestic equities and 7% to fixed income
  - Endowments with assets $101-500 million allocated 31% and 15%, respectively
- Alternative investments:
  - Alternatives were over half of the largest endowments’ assets; the allocation falls with size
V. Management and Oversight

The Foundation Board Investment Committee has responsibility for oversight of the investment portfolio, incorporating senior-level investment experience into portfolio policy formulation. The Investment Committee currently consists of 12 alumni who have particular investment expertise. The Committee meets quarterly, at which time members review asset allocation policies, portfolio performance, and recommendations proposed by the Consultant. The Committee approves guidelines for investment of the portfolio, specifying investment objectives, spending policy, and approaches for the investment of each asset category.

<table>
<thead>
<tr>
<th>In Aggregate:</th>
<th>U.S. Stocks</th>
<th>Int'l Stocks</th>
<th>Global Stocks</th>
<th>Fixed Income</th>
<th>Cash/Other</th>
<th>Total Alternatives</th>
<th>Alternatives Breakdown*</th>
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<tbody>
<tr>
<td>Dollar-Weighted Mean</td>
<td>14</td>
<td>15</td>
<td>7</td>
<td>8</td>
<td>3</td>
<td>54</td>
<td>20</td>
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<td>By Investment Pool Size:</td>
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<td>Under $25 Million</td>
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<td>3</td>
<td>26</td>
<td>4</td>
<td>10</td>
<td>2</td>
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<td>5</td>
<td>22</td>
<td>4</td>
<td>16</td>
<td>3</td>
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<td>$51 Million to $100 Million</td>
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<td>15</td>
<td>8</td>
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<td>2</td>
<td>23</td>
<td>5</td>
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<td><strong>Binghamton University Foundation</strong></td>
<td><strong>23</strong></td>
<td><strong>10</strong></td>
<td><strong>18</strong></td>
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<td><strong>1</strong></td>
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<td>9</td>
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<td>9</td>
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<td>3</td>
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<td>11</td>
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<td>8</td>
<td>11</td>
<td>3</td>
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<td>14</td>
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<tr>
<td>Over $1 Billion</td>
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<td>14</td>
<td>6</td>
<td>7</td>
<td>3</td>
<td>59</td>
<td>23</td>
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Investment Committee Members:

Stuart Koenig ’73, Chair
Ares Management, retired

Stephen Beinhacker ’86
SEI Investments, Global Head of Equities

Steve Bloom, ’78, LHD ’10
Bloom Family, LLC, CEO

Mitchell S. Goldstein ’89
Ares Capital Corporation, Co-President

Keith Horn ’80
20/20 Capital Group, Executive VP and Managing Director

Todd Jacobson ’88
Lord Abbett & Company, Partner and Associate Director

Charles Kim ’98
Alpine Group, USVI, Managing Partner

Mitch Lieberman ’80
Goldman Sachs, retired

Larry Morgenthal ’88
Soundlink Investment Partners, LLC, Managing Member

Fred Sloan ’78
FCE Group, Inc., President and CIO

Brian Zakrocki ’99
In transition

Mark Zurack ’78, LHD ’03
Columbia University Business School, Professor
Goldman Sachs, retired