



THE UNITED STATES NAVAL ACADEMY ALUMNI ASSOCIATION, INC.
AND UNITED STATES NAVAL ACADEMY FOUNDATION, INC.

Investment Policy Statement

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Overview

With the exception of planned giving assets and some other stand-alone investments, the Associations have pooled the majority of their investment dollars together to invest in what is known as the Core Portfolio. The money invested in the Core Portfolio represents a majority of all the restricted assets, including both the endowment and temporarily restricted monies, as well as some of the Associations' operating investments (unrestricted assets). The underlying assets of the Core Portfolio held for the Alumni Association, Foundation Development, and Foundation Athletic and Scholarship programs are accounted for separately in the general ledger.

The Associations have elected to use an investment management firm (the "Investment Manager") to manage the assets within the Core Portfolio. This decision was based on several factors including the belief that the success of an investment portfolio requires the full-time attention of the industry's best investment managers, who have the skill and expertise necessary to manage investments under all market conditions. The JIC is made up of volunteers who meet periodically and who are not in a position to devote themselves full-time to management of the Associations' investments. The Associations' full-time staff is not sufficient in size, nor does it have the required investment management experience and skill needed to prudently diversify the portfolio. Additionally, the size of the Core Portfolio when divided into diversified asset classes limits the Associations' ability to access the best investment managers, who specialize in the management of various asset classes. By working with an Investment Manager to pool the Associations' assets with similar assets of the Manager's other clients, the Associations gain access to a diverse team of full-time investment managers who have the requisite knowledge and experience to more successfully manage the Associations' assets. Lastly, by allowing the Investment Manager to take on the day-to-day responsibilities of managing the portfolio, the JIC can devote its time and energy to high-level strategic policy decisions as required by the Associations' boards.

I. Key Boundary Conditions

- A. Cash Flow Requirements and Spending Policy.** Core Portfolio spending is based on the total returns (realized and unrealized) earned by these assets. The stated spending policy on endowed assets is 4% of the endowment funds' average fair value using the prior twelve quarters.

Based on the standards of care and prudence called for by the Maryland Uniform Prudent Management of Institutional Funds Act, the Joint Finance and Audit Committee has established a spending policy for the endowed assets as outlined in the Associations' "Endowment and Management Fees Policy." For operating assets, the Treasury staff develops operating cash flow budgets using a total return spending methodology.

- B. Return Objective.** The Associations' return objective is to preserve the purchasing power of its Core Portfolio over time. This requires an investment return equal to the rate of inflation (as measured by the Consumer Price Index), plus all costs and spending from the portfolio. This translates to a 5.25% real return based on a 4% net-of-fees (investment manager, OCIO, and custodian) return and 1.25% standard administration fee.
- C. Risk Parameters.** The Associations are prepared to incur risks consistent with the pursuit of the return objectives set forth above. The Associations' overall cash flow requirements from the portfolios will also be taken into consideration and have historically been limited. Risk will be measured based on both an absolute and a relative basis. Absolute metrics, as shown in Exhibit 1, relate to declines in the inflation-adjusted market value of the portfolio. On a relative basis, the portfolio will be measured against appropriate indices and portfolios of similar size and composition.

D. Measurement Periods. The Associations have adopted rolling five-year periods to assess portfolio results. The five-year period is intended as a floor but not a ceiling.

E. Liquidity. The Associations have a long-term investment horizon with relatively low liquidity needs. For these reasons, the portfolio can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective. To ensure adequate liquidity for distributions and to facilitate rebalancing, the committee will conduct a periodic review of total fund liquidity. Although some degree of portfolio illiquidity is permissible, it is expected that a substantial portion of the portfolio will be invested in publicly traded securities through vehicles which will provide monthly, if not daily, liquidity. Further, the following liquidity parameters will serve as guideposts for the management of the Fund and will be monitored on an ongoing basis:

- No less than 40% of the assets of the endowment should be liquid within thirty days (e.g. publicly-traded equities, bonds, cash, etc...)
- No more than 50% of the assets of the endowment should be held in illiquid assets (private equity, private real assets, private debt/credit, etc...)

II. Investment Portfolio

A. Purposes. The Associations' Policy Portfolio is the long-term target asset allocation for the Core Portfolio. The Policy Portfolio, as developed by our Investment Manager and approved by the JIC, represents an asset mix likely to satisfy the objectives and risk parameters set forth above. The Policy Portfolio also represents one of several standards by which to measure progress towards achievement of the Core Portfolio's objectives set forth above.

The JIC recognizes that the Core Portfolio's actual returns could lag the Policy Portfolio's returns over any interim measurement period for at least three reasons:

1. The Policy Portfolio contains a substantial weighting of investments that are funded over a period of time, and consequently they are fairly illiquid and the majority of the return occurs at the end of the investment period.
2. The Investment Manager, with the knowledge of the JIC, has discretion to shift funds across asset class boundaries (within the minimum and maximum limits) to enhance returns or reduce risks. When exercising such discretion, the Investment Manager and the JIC recognize the difficulty of making timely shifts across asset class boundaries. Accordingly, the JIC and the Investment Manager refrain from making frequent shifts other than for rebalancing purposes.
3. The Investment Manager has the discretion within its commingled investment vehicles to deploy the capital allocated to each asset class into managers and holdings other than those whose evolving returns precisely mimic each asset class's benchmark. When exercising such discretion, the Investment Manager's decisions are guided by the approved prospectuses and operating memorandum of the applicable commingled investment vehicles.

B. Process. Exhibit 1 sets forth the Policy Portfolio representing the long-term target allocation for the Core Portfolio. The Policy Portfolio was established initially and is revised periodically based on research and discussion involving JIC members, staff, the Investment Manager and others, as deemed necessary. Such discussion focuses on the Associations' liquidity needs and perceived risk tolerance, as well as the projected behavior of asset classes and strategies deemed worthy of consideration for the Associations' potential use. The return objectives and benchmarks for each asset class are based on an analysis of capital market history, adjusted for valuations and economic conditions at the time this statement was last revised.

C. Tactical Asset Allocation. As described in the Purposes section, the Policy Portfolio represents the asset mix likely to satisfy the Associations' long-term investment objectives for the Core Portfolio. This asset mix represents policy norms that are strategic in nature. The JIC has approved a target range for each of these asset classes that:

1. Recognizes various asset classes may be under- and over-weighted due to the time it takes to become fully invested in some asset classes.
2. Allows the Associations' Investment Manager to deliberately over- and under-weight the Core Portfolio's asset classes when it concludes an asset class represents either an excess return opportunity or presents too much incremental risk.

D. Return Expectations. Our return expectations consist of the estimated future real rates of returns of the individual asset classes as well as the excess return or alpha we expect based on the active activities of the underlying managers and the Investment Manager. The real return expectations and benchmarks for the Core Portfolio are set forth in Exhibit 1.

E. Investment Vehicles. Individual or commingled investment vehicles may be used and asset class exposure may be achieved via multi-asset or multi-strategy commingled investment vehicles. The Investment Manager is responsible for recommending appropriate investment vehicles based on achieving the Associations' investment objectives. The JIC has the responsibility and authority to select and approve investment vehicles.

Any commingled investment vehicles used by the Associations will conform to the following guidelines:

- a. The commingled investment vehicles will be directed by one or more experienced investment managers.
- b. The commingled investment vehicles shall be, in the reasonable opinion of both the Investment Manager and the JIC, suitable for the Associations and reasonably likely in combination with the other investments in the portfolio to achieve the Associations' Return Objective as set forth in the Key Boundary Conditions.
- c. The commingled investment vehicles employed by the Associations may be marketable or illiquid. Marketable commingled investment vehicles may invest in illiquid securities; however, the vehicle itself shall provide liquidity consistent with the Associations' liquidity needs.

F. Benchmarks. As a means of promoting regular and rigorous consideration of 1) the Core Portfolio's progress toward achieving its long-term objectives and 2) investment opportunities and perils confronting the Associations, the Investment Manager shall propose, and the JIC shall approve, relevant benchmarks for the Core Portfolio.

G. Leverage. The Associations will not borrow money for the sole purpose of enhancing returns. However, there may be commingled investment vehicles utilized by the Associations that utilize borrowing to enhance their performance and that invest with investment managers that utilize leverage.

H. Derivatives. The Associations do not intend to routinely invest directly in derivatives but may do so when deemed advisable to mitigate risk to the Core Portfolio. However, the commingled investment vehicles utilized by the Associations may routinely employ derivatives or use investment managers that routinely use derivatives.

I. Rebalancing. The Investment Manager may tilt the Core Portfolio away from the point targets as long as it stays within the upper and lower bounds approved by the JIC for each asset class. Should the weighting of an asset class exceed the target range, the Investment Manager shall either 1) rebalance the portfolio to within the target range or 2) seek approval from the JIC to adjust the target range.

- J. Conflict of Interest.** If any member of the JIC, Investment Manager, or Staff shall have, or appear to have, a conflict of interest that impairs or appears to impair the respective member's ability to exercise independent and unbiased judgment in the good faith discharge of his or her duties, he or she shall disclose such conflicts prior to meaningful discussion of the matter to which the conflict relates.
- K. Mission Aligned Investing.** Per design, the portfolio does not have an overt Environmental, Social, and Governance (ESG) and Socially Responsible Investing (SRI) strategy that would mandate specific capital deployment to support various initiatives. The portfolio can have the greatest impact on a variety of societal endeavors by focusing on the core mission of generating returns to provide sustainable support to the United States Naval Academy.

III. Implementation

A. Responsibilities.

- 1. Joint Investment Committee.** The JIC is responsible for overseeing that the Investment Manager and Associations' staff fulfill their responsibilities as outlined below. The JIC also is responsible to the boards of the Associations for investment oversight as spelled out in the JIC Charter, which is contained within the Board of Trustees Operating Manual.
- 2. Investment Manager.** The Associations and the Investment Manager have entered into a contract for investment advisory, investment management and asset allocation services. While the contract provides the legally binding terms and conditions of the services, in the course of carrying out these services the Associations expect the Investment Manager to:
 - a. Discuss the Associations' investment needs and requirements with the JIC and Associations' staff.
 - b. Develop and recommend portfolio allocations.
 - c. Implement portfolio allocations.
 - d. Provide statements on the assets under management.
 - e. Provide performance reports.
 - f. Keep the Associations' staff and the JIC apprised of information relevant to the Associations' portfolios.
 - g. Provide the JIC and staff with a quarterly report on the Core Portfolio.
- 3. Staff.** The Associations' staff, as overseen by the VPFA, is responsible for:
 - a. Day-to-day interactions and oversight of the Investment Manager.
 - b. Implementing any decisions made by the JIC.
 - c. Keeping the JIC apprised of important Core Portfolio information.
 - d. Reconciling and recording Core Portfolio return information on the books of the Associations.

B. Procedures.

For clarity, the following procedural policies are spelled out:

1. **Core Portfolio Investment Policy.** All revisions to the Core Portfolio investment policy will be approved by the JIC and presented to both boards for final approval.
2. **Core Portfolio Asset Allocation Targets and Limits.** Any revisions to the Core Portfolio asset allocation targets and maximum and minimum limits, as shown in Exhibit 1, must be approved by the JIC prior to their implementation.

If the need arises to establish additional investment accounts and set their associated asset allocations between regularly scheduled JIC meetings, The VPFA shall consult with the Chairman of the JIC. The Chairman has the discretion to approve the changes or put them before the entire JIC. Any changes the Chairman approves will be reported to the JIC at the next regularly scheduled meeting.

3. **Core Portfolio Investments and Commitments.** The Investment Manager may recommend new investment vehicles and commitments to the Associations' staff between regularly scheduled JIC meetings. The VPFA may approve these recommendations as long as they meet the requirements of the Core Portfolio investment policy and fall within the limits of the asset allocation approved by the JIC. The VPFA will ensure the JIC is briefed on any changes at the next regularly scheduled meeting. Any recommendations that fall outside these requirements must be approved by the JIC before their implementation.

ADOPTED by the Joint Investment Committee on 10/31/2025; **APPROVED** by the Board of Directors, United States Naval Academy Foundation, Inc. on 11/06/2025; and **APPROVED** by the Board of Trustees, The United States Naval Academy Alumni Association, Inc. on 11/19/2025.

Exhibit 1 - Associations' Core Portfolio

Policy Portfolio Allocation

Return Objective

The objective of the Association's Core Portfolio is to produce a real return of 5.25% net-of-fees (investment manager, OCIO, and custodian) , based on a 4% spending rate and 1.25% standard administration fee. The combination of assets listed below and the alpha generated through active management are expected to enable the portfolio to achieve the return objective over the long term.

Category	Min	Target	Max	Benchmark
Equity-Oriented Assets	50%	70%	80%	
<i>Public Equity</i>	30%	42%	50%	MSCI All Country World
<i>Private Equity</i>	20%	28%	40%	Index CA All Private Equity
Flexible Capital	5%	10%	15%	Flexible Capital Composite Index Index
Real Assets	5%	10%	15%	Real Asset Composite Index
Fixed Income & Cash	5%	10%	15%	2/3 Barclays US Intermediate Treasury Index and 1/3 BofA Merrill Lynch US 6-Mo. Treasury Bill Index
Total		100%		

*Flexible Capital and Real Asset Composite Indexes comprised of manager weights and benchmark returns.

Core Portfolio exhibit approved by the Joint Investment Committee on 10/31/25