

Henderson State University Foundation

INVESTMENT POLICY STATEMENT

Approved by the Foundation Board of Directors, 12/18/2013

Amended, 3/12/2014

12/14/2016

12/12/2018

9/15/2022

Table of Contents

	<u>Page</u>
I. DEFINITIONS	3
General	
Purpose	
Duty	
II. OBJECTIVES	7
Investment Objective	
Strategy	
Asset Allocation	
III. GUIDELINES	8
Return Guideline	
Portfolio Rebalancing	
Investment Manager Performance	
IV. SPENDING POLICY	9
Spending Rate	
Spending Distribution	
Spending Rate Review	

Appendix A – Asset Allocation

I. DEFINITIONS

General

The Henderson State University Endowment is an aggregation of donor gifts comprised of but not limited to cash, stocks, bonds and other real assets. The funds are invested in perpetuity to generate a reliable and steady income stream to provide support for funding scholarships, academic chairs, programmatic support and other uses as specified by the donors. The endowment is expected to provide fiscal stability since the principal is invested for long-term growth and annual total return spending.

Purpose

The purpose of this statement is to establish written policies and guidelines for the investment of Endowment assets to reach the desired results. These policies and guidelines are intended to instill confidence that the future growth of the Endowment is sufficient to offset normal inflation plus reasonable spending, thereby preserving the purchasing power to evenly support present and future beneficiaries. This statement will establish appropriate spending policy, risk and return objectives, risks tolerance, investment time horizon, asset allocation, and suitable investments.

Several sections in this policy document can be used to describe the standards and duties applicable to those responsible for managing and investing the Portfolio. These sections are based on the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) model legislation, and will need to be reviewed and updated by counsel based on the jurisdiction and activities of the Organization. The specific version of UPMIFA legislation adopted in the Organization’s jurisdiction may impose additional standards or requirements on the Organization’s fiduciaries.

Duty

In accordance with the by-laws of the foundation, the Finance and Investment Committee “shall have the duty to define a policy under which investment decisions may be made on behalf of the corporation, shall seek and consider professional investment advice, and so act as to protect Corporation assets consistent with the fiduciary obligation of the Directors, and with a view to production of income and capital growth”.

The Finance and Investment Committee, the Organization’s designated staff, the Organization’s investment advisor (the “Investment Advisor”), and the investment managers (the “Investment Managers”) are charged with implementing this Policy. Their respective responsibilities are set forth below.

Finance and Investment Committee

The Finance and Investment Committee is responsible for:

- Establishing, reviewing periodically, and modifying this Policy and its appendices from time to time, and reporting any changes to the Board.
- Setting the asset allocation targets and ranges for the Portfolio, and modifying them from time to time.
- Implementing this Policy, with input from Organization staff and the Investment Advisor.
- Overseeing the Portfolio's assets and reporting on the status of the Portfolio to the Board at least two times a year.
- Engaging the Investment Advisor to assist the Investment Committee in carrying out its investment responsibilities and to implement the investment strategy and decisions of the Investment Committee.
- Continuing or terminating the Investment Advisor and monitoring its performance.
- Engaging and continuing or terminating the Investment Advisor's bank custodian, and monitoring its performance.
- Monitoring the fees and other expenses associated with the management and administration of Portfolio.

Investment Advisor

The Investment Advisor is responsible for:

- Monitoring the investment environment and regularly communicating with the Finance and Investment Committee concerning issues that may impact the Portfolio.
- Guiding the Finance and Investment Committee with respect to the strategic asset allocation.
- Setting and implementing any tactical strategy that seeks to take advantage of market dislocations (i.e., underweight/overweight specific sectors).
- Implementing rebalancing on a periodic basis or when otherwise appropriate.
- Implementing the Portfolio's asset allocation through the selection, continuation, and termination of Investment Managers.
- Selecting, continuing, or terminating Investment Managers based on appropriate criteria, including the following: investment philosophy, historical performance, experience of key personnel, and financial viability or changes in these factors. In selecting each Investment Manager, the Investment Advisor will take reasonable measures to assess the independence of the Investment Manager, including any conflicts of interest that the Investment Manager may have. (This Investment Manager selection responsibility also includes the ongoing monitoring of the Investment Managers for adherence to this Policy and his, her, or its stated investment strategy.)
- Reviewing Investment Managers, establishing the scope and terms of the delegation to Investment Managers, and monitoring their performance and compliance with the scope and terms of the delegation.
- Monitoring, analyzing the performance of, and recommending performance benchmarks for each Investment Manager.

- Preparing investment reports at least quarterly for the Investment Committee's review that contain the information necessary for the Investment Committee to exercise its judgment and carry out its investment responsibilities prudently.
- Attending meetings in person or by telephone conference with the Investment Committee and the Organization's staff as requested.
- Providing necessary information to and cooperating with the Investment Committee, Organization staff, and the Organization's external auditors.
- Providing feedback regarding changes to this Policy when requested by the Board or the Investment Committee and proposing corresponding amendments to the relevant account documents, if necessary.

Investment Managers

Each Investment Manager is responsible for:

- Adhering to the investment strategy for which the Investment Manager was selected.
- Acting in accordance with the standard of care and restrictions on investment management set forth in this Policy.
- Preparing quarterly written statements, including a summary of the actions taken with respect to the Organization's assets under management.
- Suggesting performance benchmarks (described below) to facilitate the Investment Committee's and Investment Advisor's evaluation of the Investment Manager's performance.
- To the extent that the Investment Manager is authorized and directed by the Investment [Committee]/[Advisor], voting all proxies for the Organization's securities.
- Taking reasonable steps to promptly communicate significant changes in the Investment Manager's firm to the Investment Advisor, including: changes in senior management or high-level personnel; changes in the Investment Manager's ownership; and changes in the Investment Manager's investment strategy and/or style.
- Taking reasonable steps to promptly report to the Investment Advisor any [material] violation of this Policy, and any material adverse determinations against the firm or its principals, either by a court, the Securities Exchange Commission, or any other regulatory authority.

Organization Staff

[Organization staff is responsible for assisting the Finance and Investment Committee with all components of this Policy, including coordination of outside professionals involved in supporting the investment and management of the Portfolio.]

- Performing regular monitoring of the Investment Advisor and the Investment Managers, as necessary.
- Monitoring general compliance with this Policy and recommending to the Finance and Investment Committee changes and modifications, if necessary.
- Responding to requests from the Finance and Investment Committee for assistance and the performance of due diligence.

- Providing information to the Investment Committee as needed so that the Investment Committee can set asset allocation targets.
- Recommending to the Finance and Investment Committee whether to engage, continue with, or terminate the Investment Advisor [, bank custodian,] and other consultants, and performing related due diligence.
- Providing information to the Investment Advisor so that the Investment Advisor can, make rebalancing decisions, determine asset class structure, and evaluate, select, continue, and terminate Investment Managers.
- Recommending to the Investment Advisor whether to engage, continue with, or terminate Investment Managers.
- Reconciling transactions and reports with the Investment Advisor.

II. OBJECTIVES

Investment Objectives

The goal for the Endowment is to provide a real total return that preserves the purchasing power of the Endowment's assets, while generating an income stream to support the Foundation's activities. The Endowment's real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility.

The primary investment objective for the Endowment is to earn a total return net of portfolio management fees, spending and expenses, within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the Endowment's assets and support the defined spending policy. Therefore, it is the objective to achieve an average annual total return of 7.00%.

The Organization recognizes and acknowledges that some risk must be assumed in order to achieve the long-term investment objectives of the Portfolio. In establishing its risk tolerance, the Organization's ability to withstand short- and intermediate-term variability [as well as the statistical probability of loss for a given period of time for the Portfolio] is evaluated by the [Board]/[Investment Committee].

Strategy

Because the endowment funds are expected to endure into perpetuity, and because inflation is a key component in its performance objective, the long-term risk of not investing in growth securities outweighs the short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities will be used to lower the short-term volatility and to provide income stability, especially during periods of weak or negative equity markets. Cash is not a strategic asset but is a residual to the investment process and used to meet short-term liquidity needs.

Asset Allocation

The primary objective of the Foundation's asset allocation is to provide a strategic mix of asset classes which produces the highest expected return within a prudent risk framework. In general, the target allocation mix is 64.5% equities (with a 45% to 80% range) and 33.5% fixed income (with a 20% to 50% range). Specific detail of the asset allocation mix is located in Appendix A of this investment policy.

It is the responsibility of the Finance and Investment Committee to review the asset allocation parameters on an ongoing basis and recommend revisions as necessary.

III. GUIDELINES

Return Guideline

It is the objective to obtain an average annual total return of 7.00%. The Investment Advisor will accomplish this by keeping assets fully invested and seeking the best price and execution when purchasing or selling securities.

The Finance and Investment Committee will consult with the Investment Advisor on an ongoing basis to ensure the objective return is obtained.

Portfolio Rebalancing

The Investment Advisor has the responsibility to periodically rebalance the Fund within the asset allocation ranges described in Appendix A. The rebalancing should be addressed at least quarterly or more frequently if warranted.

Although it is the policy of the Investment Advisor to invest assets in accordance with the defined maximum and minimum ranges for each asset class, it is understood that rapid market movements may cause the asset mix to temporarily fall outside those ranges. If/when this occurs, it is the responsibility of the Investment Advisor to take the proper action to bring the asset allocation within the defined ranges.

Investment Advisor and Investment Manager Performance

The Finance and Investment committee will measure and review the performance of the Investment Advisory and the Investment Manager against the appropriate market index and/or their relevant peer group. The specific market index used for comparison will be determined by the Finance and Investment Committee.

IV. SPENDING POLICY

Spending Rate

The long-term objective of the spending guidelines is to maintain the purchasing power of the Endowment and to provide a reasonable, predictable, stable, and sustainable level of income to support current operations. The gross spending rate for the endowment pool is 5.50%. From this figure 4.00% will be used to meet the obligations of the funds. 1.50% will be retained for administrative purposes.

The amount to be spent in each year will be calculated June 30th of the prior year by multiplying the spending rate (4.00%) by the five-year rolling average market value of the endowment pool as of June 30th. This amount will then be equally divided to all eligible funds. An example spending rate projection is below:

\$10,000,000	-	<u>Endowment Pool Market Value (5-Year Rolling Average)</u>
\$400,000	-	<u>4.00% Spending Rate</u>
\$150,000	-	<u>1.50% Administrative Fee</u>

Spending Distribution

Once the spending amount is determined, distributions should only be made on a semi-annual basis (Fall / Spring). Funds should remain fully invested until needed. Distribution to the administration fee account may be deposited on quarterly basis or more frequently if needed.

Spending Rate Review

The Finance and Investment Committee will review the spending rate on a semi-annual basis. Should market performance result in unsustainable change in available spending, the Investment Committee will address the spending rate and alter accordingly.

Eligible Funds

Newly established endowments created on or before 12-31 in the year prior to the spending rate calculation date are eligible to participate in the spending rate program. Donors are encouraged to provide separate funds when establishing a new endowment to allow for immediate spending while the fund meets the investment period requirement.

Example 1

\$100,000 endowment created on 11-20-2015

This fund will be included in the 6-30-2016 spending rate calculation

The first award from this gift will be in 2017/2018 school year

Example 2

\$100,000 endowment created on 2-20-2016

This fund will be included in the 6-30-2017 spending rate calculation

The first award from this gift will be in 2018/2019 school year

APPENDIX A – Asset Allocation (Updated 9/15/22)

<u>Henderson State University Foundation - Asset Allocation</u>			
	Minimum	Target	Maximum
Equities	45%	64.5%	80%
US Large Cap	20%	32.4%	45%
US Small Cap	0%	5%	15%
Real Estate Securities (REITs)	0%	5%	10%
International Equities	5%	20.5%	25%
Fixed Income	20%	33.5%	50%
USD Investment Grade FI	20%	28.5%	50%
USD High Yield	0%	5%	10%
Non-USD Fixed Income	0%	0%	5%
Alternative Investments	0%	0%	5%
Private Equity	0%	0%	5%
Commodities	0%	0%	5%
Hedge Fund	0%	0%	5%
Tactical Investing	0%	0%	10%
Cash	0%	0%	10%