

# **Henderson State University Foundation**

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## **INVESTMENT POLICY STATEMENT**

Approved by the Foundation Board of Directors, 12/18/2013  
Amended, 3/12/2014

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# 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, professorships, fellowships, academic chairs, 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.

## 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”.

Furthermore, The Finance and Investment Committee responsibilities include:

1. Recommending investment policy for Board approval
2. Selecting Investment Managers, Consultants, and Custodians
3. Developing investment policy guidelines
4. Developing investment objectives and performance standards
5. Determining the asset allocation and rebalancing strategies
6. Reviewing and evaluating investment results and implementing corrective action as needed
7. Establishing Spending Policy Guidelines

## 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 a total return of 7.00%. The objective total return is calculated as follows:

<b><u>Total Return Objective</u></b>	<b><u>7.00%</u></b>
Spending Rate	4.00%
Administration Fee	1.50%
Inflation Rate (CPI)	1.50%

### 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 60% equities (with a 45% to 75% range) and 40% fixed income (with a 30% 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 a total return of 7.00%. The investment manager 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 Manager on an ongoing basis to ensure the objective return is obtained.

#### **Portfolio Rebalancing**

The Investment Manager 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 Manager 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 manager to take the proper action to bring the asset allocation within the defined ranges.

#### **Investment Manager Performance**

The committee will measure and review the performance of 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 committee. At a minimum, the manager should achieve risk-adjusted returns that demonstrate value greater than the value demonstrated by the relevant market index.

## IV. SPENDING POLICY- (Full Implementation July 2015)

### 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 administration purposes.

The amount to be spent in each year will be calculated December 31st 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 December 31st. This amount will then be equally divided to all eligible funds. An example spending rate projection is below:

<b><i>Spending Rate Projection</i></b>			
<b><u>5-Year FMV Average</u></b>	<b><u>Gross Spending Rate</u></b>	<b><u>Scholarships and Gifts</u></b>	<b><u>Admin Fee</u></b>
9,812,266	5.50%	4.00%	1.50%
	539,675	392,491	147,184

*\*FMV data taken from audits 2008 to 2012*

### 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.

## APPENDIX A – Asset Allocation

<u>Henderson State University Foundation - Asset Allocation</u>			
	Minimum	Target	Maximum
Equities	45%	<b>60%</b>	75%
US Large Cap Value	15%	20%	25%
US Large Cap Growth	10%	15%	20%
US Small Cap	5%	10%	15%
International Equities	5%	15%	20%
Fixed Income	30%	<b>40%</b>	50%
Global Government Bonds	25%	30%	40%
Global Investment Grade	5%	10%	15%
Global High Yield	0%	0%	5%
Alternative Investments	0%	<b>0%</b>	5%
Private Equity	0%	0%	5%
Commodities	0%	0%	5%
Hedge Fund	0%	0%	5%
Cash	0%	<b>0%</b>	10%