

# INVESTMENT POLICY

Revised and Approved JULY 2017

SOUTHERNFOUNDATION

## **INVESTMENT COMMITTEE**

The Southern University System Foundation coordinates gift agreements, helps determine how gifts will be used and invests and manages the gifts.

The Investment Committee is made up of five to seven foundation trustees who are also members of the Foundation Executive Committee, plus individuals who have knowledge regarding investments. The committee meets quarterly in February, May, August and October.

The Investment Committee makes investment policy recommendations to the Executive Committee, directs Consultant/Investment Manager to implement approved policies. All actions of the Investment Committee are reported at each foundation Executive Committee meeting with verbal and or written reports.

### **INVESTMENT COMMITTEE RESPONSIBILITIES**

For the endowment and treasury pools, the committee shall recommend acceptable asset allocation ranges to the full board. (See the current, established ranges below) Within these ranges, the investment committee shall establish further asset allocation targets.

1. The Committee or its designee(s) shall allocate funds to an investment manager and/or established investment funds with demonstrated superior performance in a specific investment area. From time to time, the Committee or its designee(s) may withdraw funds or reallocate funds between funds or the manager.
2. The Committee will monitor the manager's performance by comparison to appropriate equity and fixed income market indices, and/or with mutual funds/investment managers having similar objectives, and with other endowment funds.
3. The Committee shall select and appoint a qualified, independent investment consultant.
4. The Committee shall monitor and review, on at least a quarterly basis, the overall investment performance and asset class targets.
5. The Committee or its designee(s) will meet as necessary with the investment manager. Substantive meetings with the investment manager will be conducted at least annually, in person or by phone.
6. The Committee or its designee(s) will provide quarterly investment reports to the full board; these reports should depict the absolute and relative performance of the investment and treasury pools.

## INVESTMENTS-OVERSIGHT

Responsibility for oversight of the foundation investments is placed with the Southern University System Foundation Board of Directors. The Board of Directors then delegates the direct authority for investment oversight to the foundation Executive Committee. Because of the complexity of the investment portfolio and decisions, the Executive Committee has formed a special committee, the Investment Committee, to advise the Executive Committee.

		Planning			Implementation and Review		
Fiduciary Level	Endowment Distribution Policy	Investment Policies	Asset Allocation	Asset Strategy Class	Management of Portfolio	Security Selection	Monitoring
Executive Committee	Decides						Reviews Committee Decisions
Investment Committee	Recommends	Decides	Decides	Oversees	Oversees		Reviews Decisions
Consultant/ Investment Manager	Recommends	Recommends	Recommends	Recommends	Decides	Reviews/ Decides	Compliance vs. Guidelines

## INVESTMENT PHILOSOPHY

The Foundation is responsible for the investment of both non-endowed and endowed funds. When appropriate, non-endowed funds will be invested in a manner consistent with their objectives. Endowed funds, on the other hand, will be prudently invested as permanently invested funds, in a manner consistent with earning superior long-term income with capital appreciation, while minimizing both short and long-term volatility.

1. As a permanent fund, the investment objectives for the endowment require disciplined and consistent management that accommodates all events that are relevant, reasonable, and probable. Extreme positions or frequent variations in management style are not consistent with these objectives.
2. The investments of the endowment shall be appropriately diversified so as to minimize risk and volatility while maximizing expected returns.
3. Unless otherwise indicated, the Consultant/Investment Manager shall have complete investment discretion based on the expectation that the assets of the Fund will be invested with care, skill, prudence and diligence.
4. The return objective for the Endowed Chair and Professorships pool is an average rate of return of 4% to 6% annualized after fees, as measured over a three to five year market period.
5. The return objective for the Endowed Scholarships pool is an average rate of return of 4% to 6% annualized after fees, as measured over a three to five year market period.

## **SPENDING POLICY**

The Foundation's spending rate is 4 percent; the amount to be spent in each coming year is calculated each December 31st by multiplying the spending rate (4 percent) by the lesser of: 1) a rolling 24-month average of unit values, or 2) the unit value at December 31. The Investment Committee will review this rate annually. Though changes to the spending rate are expected to be infrequent, the Investment Committee is authorized to change the spending rate when it is deemed appropriate to do so.

## **ADMINISTRATIVE EXPENSES**

The Board will charge the Fund up to 1.25% annually for the administration of the Foundation as allowed by guidelines.

## **PRIMARY GOAL**

The purpose of the Foundation's investment portfolio is to preserve and enhance the real (inflation-adjusted) purchasing power of portfolio assets, while providing reasonable annual support to the Southern University System.

## **RESPONSIBILITIES**

The Board of Directors of the Foundation, the Southern University System Board of Supervisors, and the Southern University System Foundation are aware of their responsibility to provide for prudent management of funds given to the Foundation for the benefit of Southern University.

The Board of Directors hereby charges its Investment Committee with the responsibility of proposing fiscal policies and regulations for adoption by the Board, including investment policies and the employment of a Consultant/Investment Manager.

It is the responsibility of the Investment committee to monitor compliance with the asset targets and, in conjunction with the Foundation's Consultant/Investment Manager, recommend adjustments as necessary. The actual asset allocation may vary from the target allocation by up to 5 percentage points within any asset class or subclass.

## **PERFORMANCE GOALS, MEASUREMENT AND EVALUATION**

### **Total Portfolio**

The total portfolio's return will be reported at the end of each calendar quarter and measured versus an appropriate benchmark index. The benchmark index will be constructed based on the target asset allocation structure stated below. The benchmark will be balanced within the necessary asset classes to reflect the actual structure of the portfolio.

### **Individual Manager and Mutual Funds**

Total portfolio return for the manager will be reported at the end of each calendar quarter and compared to an appropriate benchmark.

### **Guidelines and Duties of the Consultant/Investment Manager**

The assets shall be invested with the care, skill, prudence and diligence under the circumstances prevailing from time to time that a prudent person acting in like capacity and skilled in such matters would use in the investment of a fund of like character and with like aims.

The following investments and activities are permitted only with the prior approval of the Investment Committee:

- Options, financial futures and options in futures
- Warrants
- The lending of securities
- Short sales, margin purchases, or borrowing
- Use of leverage

Transactions should be entered into on the basis of best execution, which normally means best realized price. The Consultant/Investment Manager is responsible for frequent and open communication with the Foundation's Investment Committee or its designee(s) on all significant matters pertaining to the assets managed.

### **PORTFOLIO COMPOSITION AND ASSET ALLOCATION**

To achieve the investment objective, the Program Assets will consist of three major components: an "Equity Fund", a "Fixed Income Fund", and an "Alternatives Fund." The purpose of dividing the Program Assets in this manner is to ensure that the overall asset allocation between these three asset classes remains under the regular scrutiny of the Investment Committee, and is not allowed to become the result of the investment manager decisions. It is acknowledged that over the long run, the allocation between the Equity Fund, the Fixed Income Fund and the Alternatives Fund will be a major factor in determining the Program Assets' investment performance. No more than 74% of total Program Assets can be invested in equity & alternative investments and at least 26% must be invested in fixed income investments.

The Program Assets should be diversified both by asset class and within asset classes (e.g., within equities by economic sector, industry, quality, and size). The purpose of such diversification is to provide reasonable assurance that no single security, class of securities, or specific investment style will have a disproportionate impact on the Program Assets' aggregate results.

The purpose of the Equity Fund is to provide a total investment return that will provide for

growth in principal and current income to support desired spending requirements while increasing the real value of the Program Assets. It is recognized that the pursuit of these long- term objectives entails the assumption of market variability and risk. The overall average credit quality rating of the Fixed Income Fund must be at least "A" by either of the two major rating agencies (Moody's and Standard & Poor's). With the exception of obligations of the U.S. Government and its agencies, no purchase will be made that will cause more than 5% of the Fixed Income Fund to be invested in the debt instruments of any one issuer.

#### **ENDOWED CHAIR AND PROFESSORSHIPS FUND ASSET ALLOCATION**

The following will serve as policy regarding the allocation of assets within the investment account. This investment strategy utilizes an actively managed "Moderate Risk" model incorporating a diversified portfolio of both fixed income and equity investments. This investment approach is designed to provide long term growth in conjunction with moderate levels of portfolio income. The investment manager is permitted to adjust the asset allocation within the stated ranges in order to maximize performance given expected market conditions.

<b><u>ASSET CLASS</u></b>	<b><u>MIN</u></b>	<b><u>TARGET</u></b>	<b><u>MAX</u></b>
Global Fixed Income	26	30	100
Global Equity	0	55	74
-Alternatives	0	15	25

Total Equities (Global Equity Composite) may represent up to 74% of the total portfolio market value with a minimum requirement of 0%.

Individual domestic equity holdings shall be restricted to issues of corporations that are actively traded on the major U.S. exchanges and NASDAQ. Equity mutual funds and exchange trades funds (ETF's) are permissible.

Foreign or international equities (included in Global Equity total) are permissible as ADR securities, international equity mutual funds and exchange traded funds (ETF's).

Total Fixed Income (Global Fixed Income Composite) which includes Cash & Equivalents can represent a maximum of up to 100%; and will minimally represent 26% of the total portfolio market value.

Domestic fixed income investments may include all securities issued by the U.S. Treasury or other federal agencies; investments may also be made without limitation into investment grade corporate bonds rated at least "A" from either Moody's or Standard & Poor's rating agencies.

Up to 15% of the fixed income portfolio may be invested in bonds rated Baa by Moody's or BBB by Standard and Poor's (the lowest category of investment grade) at the

time of purchase. High Yield Bond (bonds rated below investment grade <Baa/BBB) mutual funds, exchange traded funds (ETF's) and individual securities are permissible up to 10% of the overall fixed income portfolio allocation.

The overall average quality rating of the Global Fixed Income Fund will be no less than "A" rated by Moody's or Standard & Poor's. Domestic and international bond mutual funds and exchange traded funds (ETF's) are permissible.

Permissible Alternative investments may represent up to 25% of the total portfolio market value; but are effectively to be considered a subset of the Global Equity Composite. Therefore, combined Global Equity and permissible Alternatives cannot exceed 74% of total portfolio market value. Permissible Alternatives at this time include 1) domestic and international real estate investment trusts (REIT's), 2) commodities & precious metals and 3) currencies.

The asset allocation ranges established by this Investment Policy represent a long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy range. Any divergence should be of short-term nature.

The Consultant/Investment Manager may not invest Program Assets in the following investment types: venture capital, private equity and private debt, hedge funds, direct real estate, or oil and gas ventures. Leverage and speculative use of derivatives is prohibited.

#### **ENDOWED PROFESSORSHIP & ENDOWED CHAIR FUND ASSET ALLOCATION**

The Endowed Professorship & Endowed Chair Fund will be invested in a similar "Moderate Risk" asset allocation strategy as described in the table above.

Total Equities (Global Equity Composite) may represent up to 74% of the total portfolio market value with a minimum requirement of 0%.

Individual domestic equity holdings shall be restricted to issues of corporations that are actively traded on the major U.S. exchanges and NASDAQ. Equity mutual funds and exchange traded funds (ETF's) are permissible.

Foreign or international equities (included in Global Equity total) are permissible as ADR securities, international equity mutual funds and exchange traded funds (ETF's).

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Up to 15% of the fixed income portfolio may be invested in bonds rated Baa by Moody's or BBB by Standard and Poor's (lowest category of investment grade) at the time of purchase. High Yield Bond (bonds rated below investment grade <Baa/BBB) mutual

the overall fixed income portfolio allocation.

The overall average quality rating of the Global Fixed Income Fund will be no less than "A" rated by Moody's or Standard & Poor's. Domestic and international bond mutual funds and exchange traded funds (ETF's) are permissible.

Permissible Alternative investments may represent up to 25% of the total portfolio market value; but are effectively to be considered a subset of the Global Equity Composite. Therefore, combined Global Equity and permissible Alternatives cannot exceed 74% of the total portfolio market value. Permissible Alternatives at this time include 1) domestic and international real estate investment trusts (REIT's), 2) commodities & precious metals and 3) currencies.

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The Consultant/Investment Manager may not invest Program Assets in the following investment types: private equity, private debt, hedge funds, direct investments in real estate, or oil and gas ventures. Leverage and speculative use of derivatives is prohibited.

Signed and Adopted this \_\_\_ day of August 2017

**Southern University System Foundation, Inc.**

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