Investment Policy
For
Armstrong State University Foundation, Inc.

Name: Investment Policy

Adopted/Revised: 4 August 2015

Approved by: Finance Committee of the Board of Directors

Document History: Replaces the 1999 version

Overview

The investment policy is established to provide guidance to Armstrong State University Foundation, Inc. (“the Foundation”) in the stewardship and prudent management of the investments. It is the intention of this policy to comply with the Georgia UPMIFA (Uniform Prudent Management of Invested Funds Act) statute.

In establishing the investment objectives for the Foundation, the Board of Directors ("Board") believes the portfolio's primary investment objectives should be to meet or exceed the Foundation's spending rate plus the annual rate of inflation. A long-term investment horizon stresses the total return of the invested assets, while keeping prudent limits on the amount of overall risk taken in the total Foundation. This policy is designed to maximize the risk adjusted return while meeting the cash flow demands of the Foundation. Further, the policy recognizes that investment goals and objectives are time-sensitive, and that investment decisions must be made with the time horizon of the specific funds being invested. The Finance Committee (the “Committee”) and the Foundation Controller will administer the provisions of this policy. The investment policy applies to all transactions involving the financial assets and related activity of the Foundation including endowment funds.

The Foundation was established to support the students, faculty, administration, and maintenance of the University so as to provide the highest quality educational and support services to its students and alumni. The funds are intended for the long-term benefit of the University, therefore the spending rate from Foundation funds shall adhere to this policy.

The investment portfolio of the Foundation can be managed by investment managers approved by the Committee. The investment managers will manage the investments as provided in this investment policy. Any time the Committee determines that specified corporate practices or products may not be in accord with values it has determined to be compatible with its mission or philosophy, the investment managers will defer to the Committee’s direction with regard to the holding, purchase, or sale of the issues of that entity. Any deviation from the provisions of this investment policy by the investment managers must be approved in advance in writing by the Committee.
Definitions

True Endowment: Funds given to the Foundation with donor-imposed restriction that the funds are not to be expended but are to be invested for the purpose of producing income.

Quasi Endowment: Funds that the Board of Directors have designated are not to be expended but are to be invested for the long term for the purpose of producing income. Quasi endowments will be approved by the Committee and be specific as to amount and source of funds.

Total Return: The sum of capital appreciation (or loss) and current income achieved in the form of interest or dividends.

Real Return: The total return less the rate of inflation.

Portfolio: A diversified mix of investment assets. In this case, the portfolio is the entire endowment fund.

Asset Class: A broad category of investment assets. For our purposes, the asset classes are equities, fixed income and cash.

Asset: An individual investment vehicle – a stock, bond or shares in a mutual fund.


Unit Value: The value of a unit in a co-mingled fund. The value is based on the market value of the underlying assets that compose the fund and is calculated by dividing the total number of units by the market value to the fund.

ETF: Exchange traded fund.

Alpha: A measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of an asset and compares its risk-adjusted performance to a benchmark index. A positive alpha of 1.0 means the fund has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%.

Beta: A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. A beta of greater than 1 indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it's theoretically 20% more volatile than the market.

Sharpe Ratio: The Sharpe ratio is calculated by subtracting the risk-free rate - such as that of the 10-year U.S. Treasury bond - from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. The Sharpe ratio tells whether a portfolio's returns are due to smart investment decisions or a result of excess risk. Generally, the greater the value of the Sharpe ratio, the more attractive the risk-adjusted return. Usually, any Sharpe ratio greater than 1 is considered good by investors. A ratio higher than 2 is rated as very good, and a ratio of 3 or higher is considered excellent.
Roles and Responsibilities

The Committee shall be responsible for the investment of the Foundation’s endowment funds and other invested assets including all planned giving or life interest investments. The Committee has the following authority and responsibilities to act on behalf of the Board of Directors in connection with the investment of these funds:

▪ Establishment, oversight and review of investment policies and objectives.

▪ Allocation of funds among equity, fixed income and cash.

▪ Annual review of each investment manager with regard to performance results, investment activity and adherence to policy. Performance shall be compared against suitable benchmarks.

▪ Approval of the hiring and termination of relationships with outside investment managers, consultants, and custodians.

▪ Make changes in the endowment spending policy.

▪ Present an annual report to the Board of Directors on the composition and performance of the Foundation’s investments.

▪ Review and approve manager fees on at least an annual basis.

The Foundation Controller will supervise the consultants and custodians of the Foundation’s invested funds. As part of this supervisory function, the Foundation Controller will:

▪ Establish and maintain a schedule of historical, donated value for each endowment and compare those values against the current market values.

▪ Make individual investment decisions, allocate investment cash flow to the appropriate investment vehicles, and otherwise manage the outside investment managers in accordance with this policy.

▪ Maintain records pertaining to the endowment and other investments and prepare annual performance reports.

▪ Draw funds or spend monies as required by donor restrictions and periodically review donor restrictions and ensure that spending is in compliance with donor intentions.

Investment Managers will invest Foundation funds according to this policy and written instructions provided by the Committee. In addition managers will:

▪ Meet with the committee on a quarterly basis and provide performance reporting as specified in this policy.

▪ Report fees charged to the Foundation on a quarterly basis.
The Custodian will hold the Foundation’s securities for safekeeping and provide other services as may be contracted by the Foundation, including account administration, transaction settlements, collection of dividends and interest payments.

**Investment Objectives**

The goal of investment management at the Foundation is to maximize total risk adjusted return. Risk and return are at odds in investment management. By matching investment time horizons with appropriate assets and comparing performance against well-established benchmarks, the Foundation aims to minimize risk while achieving acceptable investment returns.

A secondary investment objective of the endowment is to outperform (net of fees) over the long term (defined as rolling five-year periods) a blended custom benchmark based on a current asset allocation policy of: 70% Russell 3000 index, 25% Barclays US Aggregate Bond index, 5% HFRI Event Driven Total Index.

The purpose of the benchmark is not to provide a recipe for managers, but rather to set a minimum performance level. Managers should outperform the benchmark using strategic asset allocation within asset classes and careful asset selection.

All investment funds will be managed to maximize total return (with regard to risk, as mentioned above). Performance and spending policy decisions will be based on total return.

The funds of the Foundation will be invested in accordance with the following objectives:

- **Safety**: Investments shall be undertaken in a manner that seeks to avoid excessive risk that does not add to the return of the overall portfolio.

- **Diversification**: The investments shall be diversified by specific maturity dates, individual financial institution(s) or a specific class of securities in order to minimize risk. It is recognized that well diversified investment portfolios minimize risk for a given level of expected return.

- **Liquidity**: The investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated.

- **Return on Investment**: The investment portfolio shall be designed with the objective of obtaining a rate of return that matches or exceeds benchmarks approved by the Committee. Measurement of total return with comparisons against applicable benchmarks will be reported to the Committee at least quarterly.

**Policies and Procedures**

**General**

A Finance committee (“the Committee”) will be formed, composed of members of the Board and appointed by the Chair of the Foundation Board of Directors. The committee should consist of at least four members, but not more than 6 members (including the chair of the Committee). The chair of the investment committee shall also be appointed by the Foundation Chair. All members shall be a current member of the Board. The Foundation Treasurer shall be one of the members of the committee (ex
officio). The committee shall otherwise function in accordance with the Foundation Bylaws.

Funds of any true Endowment, restricted trust, or any other donor restricted investment shall not be pledged or used for collateral. Quasi Endowment funds or other unrestricted investments may be used as collateral only if approved by the Board of Directors. In all other ways, the True and Quasi Endowment funds shall be similarly managed.

Except for those funds where the assets cannot be commingled, investments shall be invested in a commingled (unitized) pool and based upon the number of shares owned, will share proportionately in the investment results of the consolidated investment pool. Each new gift or investment will be held in a separate short-term investment account until the next calculation of unit values for the investment pools. Once the unit value is calculated, gifts received or other investments plus interest accrued in the short-term investment account shall be transferred to the fund for investment purposes and receive units in the fund. The unit value shall be determined monthly and income determined under the Foundation’s spending policy shall be calculated on a unit basis for distribution purposes.

Invested funds will be managed primarily by external investment managers. The managers have discretion, within the guidelines set forth in this policy statement, to manage the assets in each portfolio to achieve the investment objectives.

Investments should be selected to match the time horizon of the funds. It is recognized that permanently restricted endowments are a long-term investment. Risk and volatility inherent in investment are understood to be ameliorated by a long time horizon. The endowment funds will be managed with this long-term perspective. Expectations of risk and return will be based on the long-term averages (30 years or longer) for the markets in which the endowment funds are invested. Selection of managers and allocation of assets will be accomplished in a circumspect manner and not in reaction to short term changes in the market. Short term excess cash should be managed to avoid exposure to undue risk either from market or interest rate fluctuations. In general short term or near cash investments should have durations that match the needs of the cash flow projections for the projects for which the funds will be used.

Investment manager selection should be based on performance, customer service (including reporting capabilities), and fees. In general the Committee may rely on investment consultants who will advise the Committee on policy issues, investment manager selection, assets allocation, and other issues. Custody of investments and securities must be performed by a third party who is neither the Foundation’s investment manager or investment consultant unless the Foundation’s assets are held in a trust or fiduciary relationship such that they are legally segregated from the firm’s other assets and not subject to claims by the firm’s creditors or any other third party. Funds from restricted investments may be spent on consulting services, performance measurement services or education/training of Foundation staff related to endowment management. These expenses shall be reported to the Finance Committee on a quarterly basis.

Performance on invested funds will be measured in terms of real return. In general, interest and dividends will be reinvested in the investment pool and allocated according to the existing allocation guidance from the investment committee. Fund managers may use cash proceeds from investments to rebalance the portfolio from time to time so as to keep the asset allocation as close to the guidance as possible. Fund managers should rebalance portfolios on at least an annual basis, unless transaction costs or other circumstances dictate otherwise. Fund managers will notify the Foundation Controller when allocation is more than 5% different from the guidance and rebalancing is not performed.
Investment managers will be hired in writing and their services specified in that written agreement. Investment managers will adhere to the policies contained in this document. Investment managers will vote proxies on the invested securities unless otherwise instructed by the Foundation Controller. Additionally, the Foundation Controller should be informed in writing of any change in firm ownership or fundamental investment philosophy.

Fees charged by investment managers shall be disclosed quarterly and reviewed by the Committee. Annually the Foundation Controller shall prepare a benchmark report to compare fees charged by investment managers against the market for similar services.

Periodically, investment manager services shall be reviewed by the committee and bid out using a formal request for proposal process if the committee decides that such action is necessary. Performance, fees, and client resources and services should all be considerations in selecting a manager.

**Restrictions**

1. The restrictions of this section are intended to limit the inclusion of illiquid and highly risky securities in the investment portfolio. Risk is also mitigated by avoided excessive concentration of any individual asset or asset type in the portfolio.

2. In general, investment managers shall not sell securities short, buy securities on margin or buy or sell uncovered options, individual commodities or currencies. In addition, investment managers shall not invest in unregistered or restricted stock, private placements, warrants, or securities that do not have ready markets for resale. Additionally, all securities purchased are to be fully negotiable and marketable using principal securities exchanges. Such exchanges are to be limited to the securities listed on the NYSE, AMEX, or NASDAQ national markets. Mutual funds or ETF’s that contain some of the prohibited assets listed above may be part of a broadly diversified portfolio, but the investment committee must approve their inclusion in advance.

3. In general, the investment portfolio will not hold or trade in illiquid, derivatives, or synthetic investment vehicles including puts, calls, straddles, or hedges. Participation in alternative investments (see definition below) may be acceptable provided there are active resale markets for those funds and are approved in advance by the investment committee and are limited to no more than 10% of the overall portfolio.

4. No single industry group, as defined by Standard & Poor’s, shall constitute more than 25% of the investment pool; and, no single company, shall constitute more than 5% of the total investment pool except direct or indirect obligations of the United States government in which investment is unrestricted without written approval of the Committee.

5. Mutual funds may be substituted for separate issue equities and fixed income issues provided they meet the general test of quality, risk, diversification, and economy of purchase and retention as provided herein.

6. The duration of fixed income securities should match the time horizon of the Foundation for the use of the funds invested (within reasonable limits). Auction rate securities are not permitted.
**Investment Quality**

All equities selected will meet the test of prudent fiduciary investment with reference to both individual selections and portfolio diversification. Individual corporate debt issues will be rated not less than “A” by Standard & Poor’s. Commercial paper will be rated as A-1 or A-2 by Standard & Poor’s, P-1 or P-2 by Moody’s, or comparable rating by other recognized rating agencies. Lower rated fixed income instruments may be added to portfolio as long as the aggregate amount of lower rated fixed income assets do not exceed 10% of the overall fixed income portfolio. Irrespective of the rating agency minimums, the Committee and Foundation Controller will require the portfolio manager to conduct due diligence on all investment instruments to include evaluating counterparty risks, any underlying derivative exposure, unusual spreads between the assets yield and benchmark yields, the value of collateral for asset backed securities, and sensitivity to interest rates.

**Endowment Policies**

1. **Endowment Objectives**

The endowments shall be managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds the Foundation’s existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that exceeds inflation (as measured by the CPI).

Over the short term, the return for each element of the endowment portfolio should match or exceed each of the returns for the broader capital markets in which assets are invested.

2. **Spending Policy**

The endowment assets will be governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the Foundation’s programs. The Committee will establish the payout rate annually, in time for the following year’s budget preparation. In general, the Committee will set the spending rate for a given budget year not later than April 1st of the prior year. The Committee will report its recommended spending rate to the Board of Directors.

The endowment base will be defined as a three-year moving average of the market value of the total endowment portfolio (calculated as of the last day of December for the prior three years). The distribution or payout rate will be calculated at a specific fixed percentage of the base. Such a policy will allow for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowments. In addition, this policy will minimize the probability of invading the principal over the long term. Spending in a given year will reduce the unit value of each endowment element by the payout percentage. In no case will funds designated as True Endowment be reduced below their initial unit value. In the case of short-term declines in the market value of the endowment pool of funds, the overall spending rate may be calculated below designated payout percentage in order to maintain the original unit value of certain elements of the true endowment. Growth of the unit values over time should allow for spending of principal, without drawing from the original corpus of a particular gift. The committee approved spending rate will apply to Quasi Endowment without regard to initial unit value. Gifts held in the short-term investment account awaiting integration into the unitized endowment pool will not be considered for spending policy purposes.
New endowment funds will initially be held in short term assets (cash or near cash). During the first year that the new endowment is held in the fund, amounts will be added in phases to the unitized pool in order to minimize market timing risks. No payout is made for a new fund until after its first year of existence.

3. Asset Allocation

The endowment will be divided into three broad asset classes: equity fund, fixed income fund and cash or near-cash fund. The range and targets for allocating endowment assets among these funds is shown in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Allocation</th>
<th>Target Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Fund</td>
<td>70%</td>
<td>60 – 80%</td>
</tr>
<tr>
<td>Fixed Income Fund</td>
<td>25%</td>
<td>20 – 40%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>5%</td>
<td>0% - 10%</td>
</tr>
<tr>
<td>Cash/Short-Term Fund</td>
<td>0%</td>
<td>0 – 10%</td>
</tr>
<tr>
<td><strong>Total (weighted avg.)</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The Committee will annually review (confirm/change) the allocations among the asset classes. The Foundation Controller, with advice from investment managers and consultants, has discretion to make decisions regarding investments within each asset class so long as the guidelines specified in this policy are followed.

4. Equity Investments

The purpose of equity investments is to provide appreciation of principal that significantly exceeds inflation and some current income, recognizing that this requires the assumption of greater market variability and risk. Equity investments will primarily consist of US common stocks, but may also include funds (or ADRs) of non-US stocks, mutual funds, ETF’s, and private placements to the extent that those investments meet the restrictions set forth in this policy. The investment objective for the total equity fund will be to match or exceed the Russell 3000 stock index. Individual investments or sub-funds within the equity fund will be compared against the appropriate index for that particular asset type (Large Cap US stocks: S&P 500, Small Cap US Stocks: Russell 2000, etc.).

5. Fixed Income Investments

The purpose of fixed income investments is to provide a highly predictable and dependable source of current income and reduce the volatility of the total portfolio market value. Fixed income investments will primarily consist of US government obligations, but may also include corporate bonds, non-US fixed income investments and preferred stocks. The investment objective for the total fixed
income fund will be to match or exceed the Barclays US Aggregate Bond index or equivalent index. Individual investments or sub-funds within the fixed income fund will be compared against the appropriate index for that particular asset type.

6. Alternative Investments

Investments considered outside of the traditional asset classes of stocks, bonds and cash. Examples of alternative investments include real estate, commodities, financial derivatives and hedge funds. A hedge fund is an investment fund open to a limited range of investors, typically a private investment partnership that undertakes a wider range of investment and trading activities that allows for the fund to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds often take large risks on speculative strategies, including program trading, swaps, and arbitrage. Alternative assets should be selected for diversification of the portfolio and will typically have returns that are uncorrelated with the equity and fixed income assets.

7. Investments in Cash or “Near” Cash Securities

The purpose of cash investments is to provide liquidity for asset re-balancing, to provide a short term investment vehicle for gifts awaiting integration into the unitized pool, and to provide liquidity for endowment spending. Cash investments will generally consist of commercial money market instruments, but also consist of certificates of deposit and short-term US Treasury securities or other short term fixed assets investments that meet the quality criteria specified in this policy. The investment objective for the cash fund will be to match or exceed the Barclays Short Treasury index or equivalent. Assets that meet the criteria for the cash classification should be listed as “cash” for asset allocation purposes.

8. Rebalancing

The Committee will review the Fund’s asset allocation periodically. The Committee will review deviations from asset class policy targets outside of the allowable ranges at any point in time and if necessary, rebalancing may occur. In general, the Fund’s average asset allocation should match the targets listed in the table above. However, there may be times when tactical over or underweights are maintained to take advantage of favorable market conditions or disequilibria in certain asset categories. As a consequence of these constraints, deviations from policy targets may occur. Cash receipts shall be invested as soon as practical and in accordance with the current asset allocation policy, unless otherwise approved.

Short term/cash management investments

The Foundation manages its cash flow by investing excess funds in liquid, near-cash investments in order to maximize interest income and maintain liquidity. Short term investments are generally those that are held for less than one year and usually represent unrestricted assets. The key factors that will be considered in managing the short term investment portfolio are liquidity and security. Income earned on short term temporarily restricted investments shall be treated as unrestricted net assets.

Monitoring of Results

All investment portfolios will be monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and asset allocation with respect to target percentages. It is
expected that risk (and risk adjusted returns) will be in line with the risk associated with the specific passive index benchmarks over full market cycles.

Investment managers will report the following information on a quarterly basis: total return net of fees for the current quarter, year, three, five and, ten year periods. For each period managers shall show comparisons against a suitable or policy benchmark and the alpha, beta and Sharpe ratio statics for their portfolio and for the related benchmark. In addition, the sum of the current endowment spending policy rate plus the historical CPI and the average duration of the fixed income portfolio should be shown for the comparative periods. Managers shall also report a summary of additions and withdrawals from the account, current holdings at cost and market value, and purchases and sales for the quarter.

Annually, the Foundation Controller will present a comprehensive review of the investment portfolios to the Committee. That review will contain for each asset class and each individual asset: current market values, percent of total fund (asset allocation), total return for the last 12 months, the last three years and the last five years, or total return since inception if the asset has been purchased within the last five years. Comparison returns for each benchmark index and the consumer price index for the same time periods will be reported as well. The comparison year will end on the last day of December. Based on the results of the comprehensive review, the Committee shall at least annually re-affirm the portion of the Foundation’s investments held by each investment manager.