

MINNESOTA STATE UNIVERSITY MOORHEAD ALUMNI FOUNDATION

Investment Policy

General Overview

The Minnesota State University Moorhead Alumni Foundation, Inc. is a publicly supported corporation that has been determined to be tax-exempt under sections 501(c)(3) and 509(a)(3) of the Internal Revenue Service code. The Foundation exists solely to raise funds for Minnesota State University Moorhead and then to manage and disburse these funds for the ongoing support of the university.

The offices of the Minnesota State University Moorhead Alumni Foundation are located on the campus of Minnesota State University Moorhead at 202 Owens Hall, 1104 Seventh Avenue South, Moorhead, MN 56563.

The overall financial philosophy of the Minnesota State University Moorhead Alumni Foundation is to invest its assets in a manner consistent with its mission and prudent fiduciary management. Foundation assets serve a variety of purposes. They are used to fund its current operations, to fund ongoing grant requests of the University, and to assure a financial basis for future University and Alumni Foundation needs. In creating this investment policy, consideration has been given to these diverse needs and to the responsibility for sound stewardship of the assets.

Investment Objectives

The funds of the Alumni Foundation fall into four basic categories: (1) Permanently Restricted Funds (Endowment Funds); (2) Temporarily Restricted Funds (Spendable Funds); (3) Unrestricted Funds (Operating Funds); and (4) Reserve Funds.

Since each of these funds has a different purpose, each should have a different investment objective. Permanently Restricted Funds provide a source of revenue for the Alumni Foundation in perpetuity and should be managed for long-term growth and maximum capital appreciation. Temporarily Restricted Funds provide a stream of income to the Alumni Foundation and yet must be available for immediate disbursement, if needed. They should be invested in income-producing assets, which have a high degree of marketability. Unrestricted Funds are used as operating funds; therefore, any investment of these funds must be limited to stable value investments such as cash equivalents. Finally, Reserve Funds might be invested in a variety of ways depending upon the size of the fund and the purpose for which it is intended.

Marketability of Assets

This policy requires that the investments held within the funds be invested in liquid securities that can be transacted quickly and efficiently with minimal impact to market price.

Allowable Assets

Cash Equivalents:

- Treasury Bills
- Money Market Funds
- CD's with maturities less than a year limited to the FDIC insurance coverage limit to include the principal and accumulated interest

Fixed Income Securities:

- U.S. Government and Agency Securities
- U.S. and Foreign Corporate Bonds
- Mortgage Backed Bonds
- High Yield Bond Mutual Funds

All individual bonds, when purchased, must carry a credit rating of A- or higher as rated by S&P or an equivalent rating from Moodys, Fitch or another nationally recognized rating agency. If/when a security drop drops below BBB or equivalent, the manager must report that information to the board along with proposed action for that security. If the manager continues to hold the downgraded security, they shall report the status of that security to the Investment and Finance Committee within their normal reviews.

Any purchase of high yield bonds must be through the use of a mutual fund or ETF and cannot represent more than 10% of the total bond holdings.

No purchase shall be made which would cause a holding to exceed 7% of the fixed income allocation

Equity Securities:

- Common Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- American Depository Receipts (ADRs)
- Stocks of Non-U.S. Companies (ordinary shares)

No purchase shall be made which would cause a holding to exceed 7% of the portfolio. If mutual, collective or commingled funds are used, the fund shall not be considered as a single issue or single holding.

Alternative Assets: Allowed only in marketable form such as mutual fund or ETF.

- REITS
- Commodity

Asset Allocations

Permanently Restricted Funds (Endowment Funds) and temporarily restricted funds that are not included in the current year spendable funds

Alumni Foundation policy requires a payout from the market value of endowed funds for programs based on the current spending policy, plus the administrative fee. If the Alumni Foundation is to be able to rely on this source of revenue and meet growing disbursement needs, its endowed assets must increase at a rate greater than the payout rate.

Our goal is to increase the value of the endowed principal over 10-year time periods, after adjustments for annual payouts, by the rate of inflation, as measured by the CPI, plus 1%. Historically, equity investments, such as common stocks, are the only assets that have produced total returns equal to this goal. Therefore, it is appropriate that 70-100% of the endowed funds be invested in equity securities.

We recognize that the asset allocation of these funds may be less than 40% equities for short periods of time. However, managers must notify the Alumni Foundation's Vice President or the current Treasurer if they intend to maintain an equity allocation of 60% or less for longer than 30 days. This provision is included for the specific intention of discouraging market timing.

Temporarily Restricted Funds (Spendable Funds)

Temporarily Restricted Funds serve multiple purposes. They are given to meet the immediate needs of the university and, therefore, must be accessible at all times. They also provide cash flow for the operating needs of the Alumni Foundation as all income is transferred to operating accounts.

Due to the accessibility requirements and the need for the generation of income, it is appropriate for Temporarily Restricted Funds to be invested 100% in income-producing assets. Historically, fixed income securities, such as bonds, have provided the highest level of income generation, from time to time dividend producing equalities may be appropriate. Although bonds are subject to some price fluctuation, the level of volatility is generally moderate.

Liquidity is also a consideration, although it is unlikely that all funds within this account would be needed at the same time.

We do not expect funds invested in fixed income securities to appreciate in value. Our goal is to earn income on an annual basis at a rate equal to the rate of inflation, as measured by the CPI, plus 2-1/2 %.

Unrestricted Funds (Operating Funds)

Unrestricted Funds support Alumni Foundation operations and activities and programs throughout the University campus. Therefore, it is imperative that these funds remain liquid.

Although the Unrestricted Funds are used as operating capital for the Alumni Foundation, utilization should be made of interest-bearing accounts, including money market funds, when appropriate. Comparisons should be made of available depositories and fund families to make certain a competitive rate of return is being received. Our goal is to receive an average return equal to the rate of inflation, as measured by the CPI, less 1%.

Reserve Funds

As Reserve Funds are accumulated, they will be invested according to the purpose for which they are ultimately intended. The Investment and Finance Committee will establish appropriate investment guidelines as special projects are identified. Those guidelines will be documented as an addendum to the Investment Policy.

Recognizing the strategic allocation of Foundation, assets will be the most significant determinant of long-term investment returns and variation in asset values. As such, the asset allocation is determined by the four categories of funds as previously defined. Outlined below are the long-term strategic asset allocation guidelines, determined to be the most appropriate, given each Fund's objective and time horizon.

Permanently Restricted Funds (Endowment Funds)

Asset Class	Sub-asset Class	Lower Range	Upper Range	Evaluation Benchmark
Equity		70%	100%	
	<u>U. S. Equity</u>			
	Large Cap*	40%	100%	S & P 500
	Mid Cap*	0%	40%	Index
	Small Cap*	0%	20%	Russell Midcap Russell 2000
	Non- U.S. Equity*	0%	20%	MSCI EAFE Index
*as a percentage of total equity holdings				
Fixed Income	Investment Grade Bonds	0%	30%	Barclays Int. Gov/Credit Index
Alternative Assets	REITS or Commodities	0%	10%	Wilshire REIT Index or Dow Jones USB Commodity Index
Cash		0%	30%	90 Day U. S. Treasury Bills

Temporarily Restricted Funds (Spendable Funds)

Asset Class	Sub-asset Class	Lower Range	Upper Range	Evaluation Benchmark
Equity		0%	0%	
	U. S. Equity			S & P 500 Index
	Non- U.S. Equity			MSCI EAFE Index
Fixed Income	Investment Grade Bonds	40%	100%	Barclays Int. Gov/Credit Index
Cash		0%	60%	90 Day U. S. Treasury Bills

Unrestricted Funds (Operating Funds)

Asset Class	Sub-asset Class	Lower Range	Upper Range	Evaluation Benchmark
Fixed Income	Investment Grade Bonds	0%	50%	Barclays Int. Gov/Credit Index
Cash		0%	100%	90 Day U. S. Treasury Bills

Reserve Funds

Asset Class	Sub-asset Class	Lower Range	Upper Range	Evaluation Benchmark
Equity		0%	0%	
	U. S. Equity			S & P 500 Index
	Non- U.S.			MSCI EAFE

	Equity			Index
Fixed Income	Investment Grade Bonds	0%	0%	Barclays Int. Gov/Credit Index
Cash		0%	100%	90 Day U. S. Treasury Bills

Investment Monitoring and Control

The Board of Directors of the Minnesota State University Moorhead Alumni Foundation has the responsibility to ensure that investments are being managed properly. The Board delegates to the Investment and Finance Committee the responsibility of meeting on at least an annual basis with investment managers to review performance and to report back to the Board with its findings.

Investment Guidelines

Risk. The Board of Directors of the Minnesota State University Alumni Foundation recognizes that every investment contains risk. The asset allocations stated above have been selected based on prudent fiduciary standards and current portfolio management practices. Consideration was given to the primary investment objective associated with each fund and to each fund's time horizon, liquidity needs, and ability to withstand market volatility.

Diversification. The portfolios will be structured in such a way as to minimize the risk of a large loss in any one security, industry, sector, or market. Each portfolio should never contain any more than 7% of the total shares outstanding for any one company. Likewise, there should be no more than 7% of the portfolio in any one holding, nor more than 30% of the portfolio in any one sector or industry. Equity securities should be broadly diversified among the stocks of companies in all capitalization ranges. Due to the lack of correlation between U.S. and foreign markets, equity portfolios could include foreign securities, not to exceed 25% of the total equity holdings. Foreign bonds are also permissible, not to exceed 25% of the total fixed income holdings. Managers with proven expertise and experience in foreign securities should be utilized for foreign holdings.

Performance Measurement and Review:

The investment performance of total portfolios, as well as asset class components will be measured against the evaluation benchmark or another commonly accepted performance benchmark that closely matches the manager's objective. Consideration shall be given to the extent to which the investment results are consistent with the investment objective, goals and guidelines as set forth in this statement. The manager shall also disclosure returns net of fees and appropriate risk measurements. The Investment and Finance Committee intends to evaluate the managers and comparative benchmarks over one, three, five, and ten-year periods (or since inception) and reserves the right to recommend changes in managers or advisors due to one of the following:

- 1) Failure to adhere to the investment policy and/or reporting standards
- 2) Significant underperformance or significant risk parameters
- 3) Changes in investment management philosophy that would have a negative impact on the portfolio

Restricted Asset Categories. The selection of specific investment vehicles (stocks, bonds, other marketable securities) should be made with consideration to assuring that no conflicts exist between these vehicles and the mission and goals of Minnesota State University Moorhead and the Alumni Foundation. Prohibited Assets:

- Futures contracts
- Limited partnerships
- Private placement securities
- Closely held business interests
- Real or personal property
- Unlisted stock or other securities
- Options
- Guaranteed Insurance Contracts
- Hedge Funds

Prohibited Transactions:

- Short Selling
- Margin Transactions
- Private Loans

Annual Review

The Investment and Finance Committee and the investment managers will review this statement of investment objectives and guidelines annually. This annual review will include setting the distribution rate for the endowment for the next fiscal year.

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