Stephen F. Austin State University Foundation, Inc.
Investment Policy Statement

1. Purpose

1.1 This Investment Policy Statement ("IPS") applies to all Stephen F. Austin State University Foundation ("Foundation") endowment and annuity funds, donor-advised funds and Student Roundtable funds. Individuals and institutions to promote, encourage and advance education at Stephen F. Austin State University give these funds to the Foundation.

1.2 In the management of the Foundation investments, consideration will be given to the need to balance a requirement for current income for present activities with a requirement for growth in principal to compensate for inflation. Consideration will be given to the need for safety of principal, liquidity, diversification, yield and quality.

1.3 The Foundation investments shall be managed at all times in accordance and compliance with the currently accepted standard of prudent investment management. The currently accepted standard of reasonable care requires that a fiduciary exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

1.4 The overall objective of the IPS is to assure that the Foundation funds are invested in a manner to achieve as high a level of return as can reasonably be expected to be achieved given the objectives of safety and preservation of principal. The IPS clearly states the responsibilities of all parties involved with Foundation funds. The IPS will assist the Foundation's Board of Trustees ("Board"), the Finance Committee ("Committee") and the Investment Consultant ("Consultant") in effectively communicating with and monitoring the investment firms(s) that will be engaged from time to time to facilitate the management of Foundation funds. The IPS states the Board's attitudes, guidelines and objectives in the management of Foundation funds.

2. Responsibilities

2.1 The responsibility for investment policy results rests with the Board. The specific responsibilities of the Board in the investment process include but are not limited to:

- 2.1.1 Complying with all applicable rulings and regulation of relevant regulatory agencies.
- 2.1.2 Determining the Foundations/University's projected financial needs and communicating them to the Committee on a timely basis.
- 2.1.3 Developing a sound and consistent investment policy and developing sound and consistent investment policy guidelines that the Committee can use in formulating investment decisions.

2.1.4 Establishing reasonable investment objectives, expressing the Foundation's risk tolerance level and allocating Foundation assets between equity and fixed-income investments.

2.1.5 Communicating clearly the major duties and responsibilities of those accountable for investing Foundation assets and achieving investments results

2.1.6 Monitoring and evaluating results to assure that policy guidelines are being adhered to and objectives are being met.

2.1.7 Taking appropriate action if investment performance does not meet expectations.

2.1.8 Abiding within all applicable laws, including conflict of interest provisions therein.

2.2 The Board believes that this responsibility is best discharged by delegating certain authority to the Committee and Consultant and by appointing one or more investment firms to assume certain responsibilities. The determination and selection of specific investments and securities will generally be delegated to the investment firms selected by the Committee. The Board delegates the authority to the Committee for selection of brokers, dealers and consultants for the execution of security transactions and for the safe keeping of securities. Sales, purchases and exchanges will be transacted through well-capitalized, nationally recognized investment firms that are major participants in the equity and fixed-income markets. Firms will be selected to provide the maximum benefit to the Foundation. The Committee may choose to use a request for proposals to select the firm or firms with which the Foundation deals. The Committee and Consultant are authorized to negotiate with outside investment firms for the benefit of the Foundation.

2.3 The Board will select a suitable custodian(s) and its agent / broker to oversee all securities and brokerage transactions and will provide monthly detail of all such transactions to the Committee.

2.4 The Board, acting through the Committee, will select a Consultant to evaluate and monitor performance, to deal with investment firms, to invest assets consistent with the IPS, and to provide independent analysis and recommendation to the Committee and Board.

2.5 The Consultant, as part of his/her duties and responsibilities, shall have sole and exclusive right to vote any and all proxies solicited in connection with securities held by the Foundation.

3. Endowment Funds

3.1 The Foundation presently manages two types of endowment funds. Permanent Endowments are sometimes referred to as "true" or "pure" endowments and are assets designated by the donor to be held in perpetuity. If specifically stated in writing by the donor, the corpus assets of this category of endowments may be spent only in exceptional circumstances and income derived must be expended in accordance with the written terms and conditions established by the donor and the Foundation. Quasi-endowment funds are non-permanent funds functioning as an endowment. These funds are subject to same policies and are comingled, for investment purposes, with other Foundation endowment funds. However, a quasi-endowment fund is designated to allow for the distribution of the corpus assets as defined in the endowment agreement. The distribution of the corpus may only be made at the end of the investment year at the time of the annual distribution of earnings approved by the Committee.

3.2 The investment of endowment funds has the dual goals of preserving the purchasing power of the assets throughout time and of providing a stable flow of funds to meet distribution commitments. Preserving the purchasing power of assets allows future generations to benefit from the endowment at the same level as the current generation. Current income from investments is necessary to support the University's present activities. An economic trade-off exists between these two goals. Devoting excessive investments to the goal of providing stable current funds could allow purchasing power risk to erode the value of investment assets. Devoting excessive investments to the goal of growth of the investment assets could introduce volatility into the flow of funds available for current distributions. Thus, while the Board is continually striving to balance the tension that these conflicting objectives create, it believes that a long-run goal of preservation of purchasing power of the assets is paramount.

3.3 Avoiding significant risks is essential. The Foundation is willing to trade off some potential opportunities for gain from high-risk investments (with high loss potential) by assuming a moderate-risk posture in order to have a more stable positive return. This may result in sacrificing some potential opportunities for gain during rising markets in order to avoid significant short-term declines in market value during falling markets. Since the Foundation is adverse to large downward fluctuations in the value of its investments resulting from volatile market value fluctuations, such year-to-year volatility should be minimized.

3.4 The Board adheres to the traditional capital market theory that maintains that over the long term, the risk of owning equities should be rewarded with a somewhat greater return than available from fixed-income investments. This reward comes at the expense of higher volatility of returns and more exposure to market fluctuations than with fixed-income investments. Fixed-income investments provide a more predictable return and higher current income than do equities. Thus assets should be allocated between fixed-income investments and equities to provide for current income while maintaining principal in real terms.

3.5 The Board has elected to use a portfolio of fixed income securities to increase the probability that income will be sufficient to meet distribution requirements without invading the invested principal. Since the Foundation needs to make periodic distributions, prudent cash balances may be held in near-cash investments. The remainder of the portfolio will be invested in equity securities that will allow preservation of the purchasing power of the assets under management. The equity investments will be broadly diversified by style of management, market capitalization, industry group and geographic location so as to reduce the risk of large fluctuations in value.

3.6 The allowable range and target asset allocation for the endowment funds are as follows:

Asset Category	**Minimum**	**Current Target**	**Maximum**
Equities	30%	55%	70%
Suggested Allocation of Equities:			
Large Capital Growth	*20%*	*30%*	*40%*
Large Capital Value	*20%*	*30%*	*40%*
Small/Mid Cap	*10%*	*20%*	*40%*
International Equities	*20%*	*30%*	*40%*
Fixed income	25%	35%	65%
Alternative investments	0%	10%	25%
Cash and short term	0%	0%	20%

The asset mix policy and acceptable minimum and maximum ranges established by the Board for the endowments represent a long-term view. The Committee may make tactical asset allocations within the allowable ranges with any changes reported to the Board at the next meeting. The portfolio will be rebalanced semi-annually to the target portfolio weights. Rapid and significant market movements may cause the actual asset mix to occasionally fall outside the policy range, but it is expected that any divergence should be of a short-term nature.

3.7 A newly established account must reach the minimum balance of $25,000 for one full fiscal year to receive its share of eligible earnings. To be able to participate in the distribution process, an endowment must reach the minimum balance for which it was established.

3.8 The contingency reserve is undivided profits that may be used for distribution to the endowment sub accounts and operating accounts for management fees when necessary, and will be invested in a laddered-maturity approach in securities described in Sections 5.2.1, 5.2.2, 5.2.3, 5.2.5 and 5.2.13 of this Investment Policy Statement. These securities will be counted as a part of fixed income securities for compliance with Section 5.4 of this IPS.

3.9 Gifts of individual securities will be liquidated as soon as possible. The impact on the price of inactively traded securities should be considered when complying with this policy. When liquidated, the proceeds will be invested in accordance with the allowable range and target asset allocation set forth in this policy. Exceptions to this policy are securities described by sections 5.2.1 through 5.2.3. Such securities may be held so long as the asset allocation ranges are maintained.

4. Gift Annuities

4.1 As gift annuities require an annuity payment for the life of the annuitant(s) regardless of investment performance, the annuity rate and the life expectancy of the annuitant(s) will affect the blending of fixed-income securities and equities. At the death of the annuitant(s), the remaining principal balance will be paid to the beneficiary selected by the annuitant(s). Unlike endowments, the principal balance of a gift annuity may be reduced to make annuity payments. The Foundation policy is to invest so as to reduce the probability of invading principal to make annuity payments.

4.2 The Foundation will be paid a management fee of up to 1.00 percent from portfolio returns. No payments or distributions other than the annuity payment and the management fee will be made on a gift annuity. However, if interest income from fixed-income securities dedicated to a particular gift annuity can reasonably be expected to cover the required annuity payment and management fees for the annuitant(s) expected remaining life, then the Board may consider making special distribution from total returns produced by the annuity's remaining assets. The Board will consider the gift annuity's inflation-adjusted real value in deciding whether to make a special distribution.

4.3 Similar gift annuities may be pooled into one investment account with one asset allocation reflecting the combined characteristics of the annuities and annuitants. Each gift annuity will be accounted for individually with the principal balance determined monthly.

4.4 The allowable range and target asset allocation for the gift annuities are as follows:

Asset category	**Minimum**	**Current Target**	**Maximum**
Equities	30%	45%	70%
Suggested Allocation of Equities:			
Large Capital Growth	*20%*	*30%*	*40%*
Large Capital Value	*20%*	*30%*	*40%*
Small/Mid Cap	*10%*	*20%*	*40%*
International Equities	*15%*	*20%*	*30%*
Fixed income	30%	45%	60%
Alternative investments	0%	10%	15%
Cash and short term	0%	0%	20%

5. Investment Policy Guidelines

5.1 For the purpose of this investment policy statement, all securities in the fixed-income portfolio that use long-term credit ratings must be rated the equivalent of "Baa or BBB" or better by a nationally recognized credit rating service. Securities using short-term credit ratings must be rated by a nationally recognized credit rating service at least A-2, P-2, F-2 or the equivalent.

Any security that falls below the above rating must be reviewed by the Committee and a sell or hold decision must be made.

5.2 Assets selected for the portfolio must be readily marketable. The following categories of securities are permissible investments:

5.2.1 Direct obligation of the United States Government or its direct agencies.

5.2.2 Direct obligations of federally-sponsored agencies in accordance with paragraph 5.1.

5.2.3 United States dollar denominated bonds, debentures, or commercial paper and convertible securities issued by corporations in accordance with above paragraph 5.1

5.2.4 Common stock and preferred stock issued by United States domiciled corporations and common stocks of foreign companies listed on the major U.S. or foreign security exchanges or actively-traded OTC. American depository receipts (ADR's) are acceptable.

5.2.5 Certificates of Deposit issued by federally-insured banks, federally-insured savings and loan associations and saving banks or federally-insured credit unions.

5.2.6 Banker's acceptances accepted by a bank organized and existing under laws of the United States or any state in accordance with section 5.2.5. The accepting bank must have a credit rating as required in section 5.1.

5.2.7 Money Market Mutual Funds that are registered with the Securities and Exchange Commission, having a maximum dollar weighted average maturity of no longer than 18 months, and which are no-load funds. Funds must have assets consisting of securities described in the paragraphs above and seek to maintain a stable net asset value of $1.00 per share (or unit).

5.2.8 Direct Security Repurchase Agreements must be fully secured (collateralized) by securities authorized under the sections (a) through (f) above. Collateral must be held by a third party. All agreements will be in compliance with Federal Reserve Bank guidelines.

5.2.9 Shares of investment companies as defined by the Investment Company Act of 1940. These companies include both closed-end investment companies and open-end investment companies (mutual funds). Shares of Exchange Traded Funds, known as ETFs, are permissible investments under this section. Shares in these companies may be purchased if they own securities described in sections 5.2.1 through 5.2.6 above.

5.2.10 Purchase of any type of security not listed in this section is prohibited without the express permission of the Committee.

5.2.11 No more than ten percent (10%) of the market value of the portfolio can be invested in the securities of any one company. This section is not applicable to investments in U.S. Treasury or federal agency securities.

5.2.12 Unless otherwise noted in this investment policy, permitted collateralized mortgage obligations would typically include securities that are currently paying interest, receiving principal pay downs and do not contain leverage. The weighted average CMO volatility ratings of these securities (i.e. the "FLUX Score") should not exceed 6. Unless otherwise noted in this investment policy, purchases of mortgage securities whose payment represents the principal payments on the outstanding principal balance of the underlying mortgage-backed security and pays no interest (e.g. principal-only securities) is not permitted. Unless otherwise noted in this investment policy, purchases of mortgage securities whose payments represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays not principal (e.g. interest-only securities) is not permitted. In total, collateralized mortgage obligations (CMOs) are limited to no more than 10% of the fixed-income portfolio.

5.2.13 Taxable and tax exempt obligations of U.S. states and their political subdivisions.

5.3 Alternative investments represent investments in investment vehicles that seek to provide diversification through innovative and flexible strategies (such as the ability to short, add leverage and hedge). Investments in such vehicles are expected to provide diversification and the opportunity for capital appreciation. Alternative Investments are designed to provide returns that are non-correlated with returns of traditional stock and bond investments. Investments in these investment vehicles carry special risks. The fund(s) may utilize speculative investment strategies, trade in volatile securities, and use leverage in an attempt to generate superior investment returns. The fund(s) may invest in illiquid securities for which there is no ready market and place restrictions on investors as to when funds may be withdrawn.

5.3.1 Permitted alternative investments in the Portfolio may include hedge funds, managed futures funds, private equity funds, or real estate. Investments in other strategies shall be reviewed and approved by the Committee prior to purchase;

5.3.2 Permitted alternative investments in the Portfolio are limited to diversified commingled trust fund vehicles or limited partnerships offered through a third party distribution channel, such as what is offered through many broker-dealer firms. The Committee has not authorized investment in any alternative investment vehicles offered directly by any hedge fund. Any investment vehicle where the Portfolio's liability can exceed the value of the Portfolio's investment are strictly prohibited;

5.3.3 The Portfolio shall emphasize investments in fund-of-fund vehicles that are diversified by investment style and typically utilize multiple investment managers within a fund. The Portfolio, however, may invest in single manager funds, but these investments shall not comprise the majority of the investment;

5.3.4 Permitted alternative investments in the Portfolio are limited to investment vehicles that offer the ability for the Portfolio to make contributions or receive distributions at least quarterly (but preferably monthly) without restriction or incurring additional fees;

5.3.5 The maximum allocation to any one fund shall not exceed 10% of the total investment portfolio. If the allocation to alternative investments exceeds the limit at any point in time, the Committee shall rebalance the allocation to the fund at the next opportunity when the fund permits liquidation of fund holdings.

6. Performance Reporting

The performance of the total portfolio and each asset class will be monitored by the Consultant and reported to the Committee. Periodic reports will be made to the Board that will include comparison of the total portfolio and each asset class to appropriate benchmarks.

7. Spending Policy

At the end of the investment year, the Committee will review the total return on the endowment accounts and declare an annual distribution. The Foundation will be paid a management fee of up to 1.00 percent of the average invested balance. The Committee will distribute an amount up to 5.00 percent of the average invested balance for the purposes delineated in the endowment memorandum of understanding. If there are positive total returns beyond the management fee and endowment distribution, then the Committee will decide how additional earnings are utilized. Additional earnings may be used for purposes such as inflation reserve (at the sub account level), contingency reserve (undivided profits that may be used for distribution to the endowment sub accounts and operating accounts for management fees when necessary), or other purposes approved by the Board. It is up to the discretion of the Committee to decide the highest priorities for distributing these additional earnings.

8. Student Roundtable

8.1 Certain Foundation endowment assets may be allocated to the Stephen F. Austin State University Student Roundtable (“Roundtable”) to be managed by a group of finance majors directed by finance department faculty members. The Roundtable is exempt from section 3 policies. The Roundtable will abide by the other provisions of the IPS. The Roundtable students are expected to do extensive securities analysis and practice diligent portfolio management.

8.2 An annual distribution from the portfolio's total return will be paid to the designated beneficiary of the endowment. The amount of the distribution will be consistent with the donor agreement.

9. Donor-advised funds

9.1 Donors may contribute funds for University programs and projects without specifically informing the Foundation, at the time the gift is made, on their preferences for the use of the funds. Donors may later advise and consult on the use of donations. Until such time as the Foundation decides on the use of such funds, they will be invested in short-term money market investments.

9.2 When a decision is made on the use of donor-advised funds, the principal amount donated will be used for the desired purpose. All income generated by donor-advised funds will be included in the Foundation's annual budget and used for Foundation expenses.

9.3 Other temporary funds contributed for a project will be invested in short-term money market investments until such time as the account manager requests a transfer of funds. For temporary funds in the amount of $200,000 or more contributed for a single purpose, income accrued, less a management fee of up to 1.00%, will be added back to the principal. The management fee will be based on the average balance of the temporary fund.

10. Conflicts of Interest

10.1 Members of the Board are frequently persons of wide-ranging business interests. Therefore, a prudent, independent investment decision process may result in investments in firms or organizations with which a member of the Board is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization.

10.2 A member of the Board shall not direct nor participate in the decision to purchase or sell securities of a firm with which such member is affiliated.

10.3 Investments will not be purchased from or sold to a member of the Board.

11. Audits, Controls and Accounting

11.1 The Board shall authorize an annual audit of the Foundation investment assets to ensure compliance with the IPS.

11.2 Checks written on Foundation investment funds require two signatures of those on the signature card. Wire transfers of investment funds require two signatures on the authorization letter. The authorization letter may be transmitted by facsimile with the original delivered by mail.

11.3 Investment assets of the Foundation will be accounted for using Generally Accepted Accounting Principles. Investment assets will be accounted for and returns will be computed on a market value basis.