

STEPHEN F. AUSTIN

STATE UNIVERSITY

Office of the General Counsel

**POLICY SUMMARY FORM**

**Policy Name:** Investments - Endowments Funds

**Policy Number:** 3.20

**Is this policy new, being reviewed/revised, or deleted?** Review/Revise

**Date of last revision, if applicable:** 1/28/2022

**Unit(s) Responsible for Policy Implementation:** Vice President for Finance and Administration

**Purpose of Policy (what does it do):** This policy applies to all Stephen F. Austin State University endowment funds. The policy states the boards' attitudes, goals and objectives in the investment of the endowment assets and is intended to provide guidance to the finance and audit committee, the university administration, and any investment consultant(s)/manager(s) in the management of the endowment assets. University funds that are governed by Chapter 2256 of the Texas Government Code known as the Public Funds Investment Act are invested in accordance with Investments policy (3.21).

**Reason for the addition, revision, or deletion (check all that apply):**

- Scheduled Review       Change in law       Response to audit finding  
 Internal Review       Other, please explain:

*Please complete the appropriate section:*

**Specific rationale for new policy:** N/A

**Specific rationale for each substantive revision:** Minor edits.

**Specific rationale for deletion of policy:** N/A

*Additional Comments:*

Reviewers:

Judi Kruwell, Associate Vice President for Finance and Administration

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## Investments–Endowment Funds

**Original Implementation:** Unpublished

**Last Revision:** ~~February 1, 2022~~ January 30, 2023

### Purpose

This policy applies to all Stephen F. Austin State University endowment funds. The policy states the boards' attitudes, goals and objectives in the investment of the endowment assets and is intended to provide guidance to the finance and audit committee, the university administration, and any investment consultant(s)/manager(s) in the management of the endowment assets. University funds that are governed by Chapter 2256 of the Texas Government Code known as the Public Funds Investment Act are invested in accordance with Investments policy (3.21).

### Definitions

**True (or Permanent) Endowment Funds** are funds which a donor or other outside agencies have stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity and invested for the purposes of producing present and future income.

**Quasi-Endowment Funds** are funds for which the governing body of the university, rather than a donor has determined that the corpus is to be retained and invested. Since these funds are internally designated rather than externally restricted, the university has the right to expend principal with approval from the governing body.

**Gift Instrument** refers to the records that establish the terms of the gift and may consist of more than one document. The release or modification of restrictions on management, investment, or purpose contained within the gift instrument is governed by Texas Property Code Section 163.007.

**Investment Consultant** is an external firm or individual who can provide advice and/or guidance regarding investment decisions to the university, and/or hire investment managers.

**Investment Officers** include the university's vice president for finance and administration, the associate vice president ~~of~~ *for* financial and administrative ~~services~~, the director of treasury and student business services, and other employees as designated in writing by the university's vice president for finance and administration including an employee temporarily holding one of those positions in an acting or an interim role.

## **General**

Endowment funds represent private funds given to the university by individuals or institutions to promote, encourage and advance education and to improve the degree and non-degree educational functions by establishing scholarships, fellowships, professorships, academic chairs and other academic endeavors at the university, as specified by donors.

University endowment funds are not considered to be public funds but instead are governed by Section 51.0031 of the Texas Education Code. This section of the Texas Education Code states that the university "—with regard to donations, gifts and trusts, may establish endowment funds that operate as trusts and are managed under prudent person standards".

## **Investment Objectives**

The overall investment objective is to assure that the university's endowment funds are invested in a manner to achieve as high a level of return as can reasonably be expected to be achieved given the primary objective of safety and preservation of principal. In the management of the university endowment 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.

## **Investment Risk Tolerance**

The board believes that the endowment assets should be managed in a way that reflects the application of sound investment principles.

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 than do equities. Thus, assets should be allocated between fixed-income investments, equities, and alternative investments in such a manner as to provide for current income while providing for maintenance of principal in real terms.

Avoiding large risks is essential. The university will assume 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 large short-term declines in market value during falling markets. Since the university is averse to large downward fluctuations in the value of its investments resulting from volatile market value fluctuations, such year-to-year volatility should be minimized.

## **Prudence**

The “prudent person” standard<sup>2</sup> is defined by Texas Education Code 51.0031(d) and described in Article VII, Section 11b, of the Texas Constitution, and means that standard of judgment and care that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

## **Responsibility and Delegation of Authority**

As provided in the Texas Education Code, each member of the Board of Regents (board) has the legal responsibilities of a fiduciary in the management of funds under the control of the university. The board recognizes its responsibility to ensure that the assets of the endowment funds are managed for the exclusive benefit of the university in accordance with its donors’ intentions, effectively and prudently, in full compliance with all applicable laws.

The university acknowledges that the ultimate responsibility for the investment of endowment funds rests with the board. The board will determine the institutional approach used to invest endowment funds. The board may choose to hire external investment consultants and/or managers, contract with another institution, or manage funds internally. To carry out this responsibility, the board delegates certain authority to the financial officer(s) to oversee and work with external investment consultants and/or managers the board has selected.

### *The Board*

The specific responsibilities of the board in the investment process include:

- Develop a sound and consistent investment policy that establishes guidelines and reasonable objectives for the management of endowments;
- At least annually, review the policy for continued accuracy and completeness;
- Select suitable investment consultants, managers or qualifying institutions to provide for the management of endowment funds;
- Evaluate performance results; and
- Comply with all applicable laws, including conflict of interest provisions therein.

### *University Administration*

The specific responsibilities of the vice president in the investment process include:

- Communicate with outside investment management team (consultants, managers and qualifying institutions);
- If appropriate, prudently select and recommend investment options to the board;
- Review and evaluate performance results to ensure policy guidelines are being adhered to and objectives are being met;

- Submit quarterly and annual investment reports to the board;
- Annually, determine the proper distribution of investment returns to the various spending accounts in accordance with the distribution section of this policy; and
- Comply with all applicable laws, including conflict of interest provisions.

The vice president may also establish an investment committee (committee). The committee may review and evaluate investment performance and review and revise qualified investment managers that are eligible to serve in an investment capacity for the university. The chair of the board may designate a board member to serve as a liaison on the committee.

#### Qualifying Institution

The board may contract to invest its funds with another Texas public institution. Endowment funds invested with a qualifying institution will be invested in accordance with the institution's Investment Policy and the asset allocation of the institution's policy will supersede the Investment Guidelines Section of this policy. The university's investment officer(s) will provide investment performance reports to the board.

#### Investment Consultant

The board may contract with an investment consultant to manage the university's endowment funds. The consultant may employ or delegate investment management to discretionary investment managers or affiliates. The consultant is responsible for ensuring that investment managers are in compliance with this policy.

Specifically, the consultant will:

- Assist the officers in the development of investment policy, objectives, asset allocation strategy and portfolio structure;
- Review investment managers, including search, selection and recommendation to the investment officers and committee;
- Monitor and report on investment manager performance;
- Monitor asset allocation and rebalance to target allocation on a periodic basis; and
- Provide written performance measurement reports as required to the investment officers, investment committee and board. The reports will contain sufficient information to determine if any changes or other actions are called for with respect to the investment portfolio.

#### Investment Managers

The board may choose to use an investment consultant to select investment managers. The investment consultant may exercise discretion to hire investment managers. If an investment manager is hired through the investment consultant, the consultant is responsible for ensuring that investment managers comply with all applicable policy guidelines.

The board may choose to directly contract with external investment managers. Each investment manager selected or approved by the board is expected to manage the endowment's assets in a manner consistent with the investment objectives, guidelines and constraints of this policy and in accordance with applicable laws. This obligation includes discharging responsibilities with respect to the endowment consistent with "prudent investor" standards, and all other applicable fiduciary regulations and requirements.

If the university directly contracts with the investment manager, then the manager(s) will receive a copy of this policy and the manager must execute a written statement to the effect that the registered principal of the organization has received and thoroughly reviewed the investment policy of the university. The statement must also acknowledge that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities.

The investment manager(s) will:

- Be registered as an investment adviser under the Investment Advisers Act of 1940 (where applicable);
- Maintain adequate fiduciary liability insurance and bonding for the management of this account;
- Acknowledge in writing that it is a fiduciary with respect to the assets under its control;
- Be responsible for making decisions on a discretionary basis. This includes buy, hold, sell and timing decisions. The external manager(s) must make responsible decisions in the selections of specific securities and the general timing of purchases and sales necessary to invest only into the security class(es) for which they were retained to manage.

### Custodian

The custodian is responsible for the safekeeping for the endowment's investment assets. The specific duties and responsibilities of the custodian include:

- Maintain separate accounts by legal registration;
- Value the holdings;
- Collect all income and dividends owed to the endowment in its custody;
- Settle all transactions initiated by the investment manager; and
- Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.

### **Investment Policy Guidelines**

For the purpose of this policy, all individual securities which use long-term credit ratings must be rated the equivalent of "B" or better by a nationally recognized credit rating service and the fixed income portfolio must have an overall credit rating of "A". Securities using short-term credit ratings must be rated at least A-2, P-2, F-2 or the equivalent by a nationally recognized credit rating service.

Authorized Investments:

The endowment's assets may be invested in the following:

- a. Direct obligations of the United States government or its direct agencies.
- b. Direct obligations of federally-sponsored agencies in accordance with the above paragraph.
- c. Obligations of states, agencies, counties, cities, and other political subdivisions of any state in accordance with the above paragraph.
- d. United States dollar denominated bonds, debentures, or commercial paper and convertible securities issued by corporations in accordance with the above paragraph.
- e. Debentures or obligations, and preferred or common stock of international governments and corporations. International preferred and common stock issues must be listed on an organized stock exchange.
- f. Common stock and preferred stock issued by United States domiciled corporations and common stocks of international companies listed on the major U.S. or international security exchanges.
- g. Certificates of Deposit issued by federally insured state banks, federally insured savings and loan associations and saving banks or federally insured credit unions. Amounts over the insurance limit of the institutions must be secured by pledged securities.
- h. Bankers' acceptances accepted by a bank organized and existing under laws of the United States or any state in accordance with the above paragraph.
- i. Money Market Mutual Funds. Funds must be registered with the Securities and Exchange Commission, have a maximum dollar weighted average maturity of no longer than 13 months, and be 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).
- j. Mutual Funds. Funds must be registered with the Securities and Exchange Commission and invest in assets authorized under this policy.
- k. Direct Security Repurchase Agreements. Direct Repos must be fully secured (collateralized) by securities authorized under the sections (a) through (g) above. Such collateral must be held by a third party. All agreements will comply with Federal Reserve Bank guidelines.
- l. 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 in these companies may be purchased if they own securities described in sections (a) through (j) above.
- m. Shares of Exchange Traded Funds, known as ETFs.
- n. No more than ten percent (10%) of the equity portfolio can be invested at any time in one company based on the market value of the stock and portfolio.
- o. No more than thirty percent (30%) of the equity portfolio can be invested in any one industry sector based on the market value of the portfolio.
- p. Alternative investments. Permitted alternative investments may include hedge funds, managed

futures funds, private equity funds, or real estate. Hedge funds are not subject to limitations of the “Prohibited Investment” section below. Investments in other strategies shall be reviewed and recommended by the investment officer prior to purchase.

- q. Permitted alternative investments in the portfolio are limited to diversified commingled trust fund vehicles or limited partnerships offered through a ~~third party~~ *third-party* distribution channel, such as what is offered through many broker-dealer firms.
- r. 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.
- s. 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.

Unauthorized Investments

The endowment’s assets should not be invested in the following unless agreed to by the vice president pursuant to an approved strategy and specifically approved in writing by the vice president:

- a. Commodity trading including all futures contracts;
- b. Short selling, option trading and margin trading unless by managers approved for that strategy;
- c. Guaranteed investment contracts.

Asset Allocation

The allowable range and target asset allocation for the endowment funds is:

<b>Asset Category</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Target</b>
Total Fixed Income	0.0%	60.0%	35.0%
Total Equity	0.0%	70.0%	55.0%
Total Alternatives	0.0%	25.0%	10.0%
Total Cash or Cash Equivalents	0.0%	100.0%	0.0%

The allowable asset mix for fixed income and equities is:

<b>Fixed Income</b>	<b>Minimum</b>	<b>Maximum</b>
US Government Bonds	0.0%	100.0%
Corporate Bonds	0.0%	50.0%
<b>Equity</b>	<b>Minimum</b>	<b>Maximum</b>
Domestic Equity	0.0%	100.0%
International Equity	0.0%	30.0%

Interest Rate, Credit and Foreign Currency Risks

The university will insure the safety of its invested funds by limiting interest rate, credit and foreign



currency risks. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The vice president may diversify investment maturity to limit interest rate risk. The average weighted duration of the portfolio should not vary from industry benchmarks by more than +/- 20%.

Credit risk is the risk that an issuer or counterparty to the investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. To limit credit risk, this policy requires all securities which use long-term credit ratings to be rated the equivalent of “B” or better with the overall credit rating for the fixed income portfolio to be rated “A” or better. All short-term credit ratings must be rated at least A-2, P-2, F-2.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investment. In order to mitigate this risk, international equity investments are limited to a maximum of 30% of the equity portfolio.

### **Gifts of Individual Securities**

Gifts of individual securities will be liquidated and invested in accordance with policy guidelines and investment procedures. Exceptions to this policy are securities described as authorized investments in sections (a), (b), and (c) of the investment policy guidelines above. Such securities may be held so long as the asset allocation ranges are maintained.

### **Quasi-Endowments**

The board may establish a quasi-endowment using unrestricted gifts. Income from funds held in quasi-endowments is available for the purpose established by the board. The corpus of such funds will be held until such time as the board abolishes the quasi-endowment, at which time the corpus is available for such purpose(s) as may be designated by the board. Quasi-endowment funds that are not considered to be public funds are governed by this policy.

### **Distribution Policy**

The spending policy should balance the long-term objective of maintaining the purchasing power of the endowment funds with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current needs. At the end of the investment year, in consultation with the investment manager, the vice president will review the total return on the endowment accounts and recommend an annual distribution.

## **Performance Evaluation**

The vice president will submit quarterly reports to the board on the performance of the investment portfolio. The reports will disclose the book value and market value of the portfolio at the beginning and ending of the reporting period. The reports will disclose the realized and unrealized gains/losses and total return on the portfolio for the reporting period.

## **Conflicts of Interest**

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. The investment staff or an unaffiliated investment manager may invest in such securities. However, the following restrictions shall apply:

- 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; and
- Investments will not be purchased from or sold to a member of the board.

## **Audits**

The Department of Audit Services of the university shall include endowment assets as a component of its annual audit risk assessment. If the department determines that the endowment assets meet its risk assessment criteria, audit services may perform an annual audit of the endowment assets to determine compliance with the endowment investment policy.

## **Investment Policy Adoption and Certification**

Upon adoption by the Stephen F. Austin State University Board of Regents, the university's investment policy for endowment funds shall be reviewed annually to ensure current applicability and significant modifications thereto submitted to the Board of Regents for approval.

**Cross Reference:** Tex. Educ. Code § 51.0031; 15 U.S.C. §§ 80a-1 – 80a-64; Tex. Prop. Code Ch. 163, Investments (3.21)

**Responsible for Implementation:** Vice President for Finance and Administration

**Contact for Revision:** Director of Treasury and Student Business Services

**Forms:** None

**Board Committee Assignment:** Finance and Audit Committee

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