

Procedure 3.20

Investments – Endowment Funds

Definitions

Custodian: Individual responsible for the safekeeping for the endowment's investment assets.

True (or Permanent) Endowment Funds: 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: 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 Officers: Includes the university's vice president for finance and administration, the associate vice president for finance and administration, 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.

Procedure

The following procedure applies to all Stephen F. Austin State University endowment funds. The procedure states the goals and objectives in the investment of the endowment assets and is intended to provide guidance in the management of the endowment assets.

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 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". The "prudent person" standard is defined by Texas Education Code 51.0031(d) and described in Article VII, Section 11b, of the Texas Constitution, and means the 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.

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

Responsibility and Delegation of Authority

As provided in the Texas Education Code, the investment officers of the university have the legal responsibilities of a fiduciary in the management of funds under the control of the university. The university 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 specific responsibilities of the vice president in the investment process include:

- Review the procedure for continued accuracy and completeness;
- Communicate with any related investment management team;
- Review and evaluate performance results to ensure procedure guidelines are being adhered to and objectives are being met;
- Submit quarterly and annual investment reports;
- Annually, determine the proper distribution of investment returns to the various spending accounts in accordance with the distribution section of this procedure; and
- Comply with all applicable laws, including conflict of interest provisions.

Custodian

The university will invest its endowment funds with UTIMCO or an investment pool. Endowment funds invested with a related institution will be invested in accordance with the institution's Investment Procedure.

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

- Value the holdings;
- Collect all income and dividends owed to the endowment in its custody;
- Settle all transactions; and
- Provide 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.

Gifts of Individual Securities

Gifts of individual securities will be liquidated and invested in accordance with procedure guidelines and investment procedures.

Quasi-Endowments

The university may establish a quasi-endowment using unrestricted gifts. Income from funds held in quasi-endowments is available for the purpose established. The corpus of such funds will be held until such time as the decision is made to abolish the quasi-endowment, at which time the corpus is available.

Distribution Procedure

The spending procedure 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, 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 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

University employees shall avoid all appearance of conflict of interest pertaining to investment opportunities

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 procedure.