

Policy No.: 300-1
Original Release: April 29, 1994
Current Release: February 4, 2011

WESTERN KENTUCKY UNIVERSITY FOUNDATION

POLICY AND PROCEDURES MANUAL

SECTION: Treasury
SUBJECT: Endowment Fund Investment Policy
PURPOSE: To state the general investment policy of the Foundation

PROCEDURES: The investment objective for the endowed assets of the Western Kentucky University (WKU) Foundation is to achieve growth that will preserve and increase the purchasing power of the assets. The goal is to protect the assets against inflation and to produce current income to support the numerous programs and requirements of the WKU Foundation and Western Kentucky University. In order to provide current support and insure support in the future, the trustees have adopted a total return approach to investment management with a long-term investment horizon. This strategy will balance income and capital appreciation oriented assets to generate the desired returns determined by the Foundation's Board of Trustees. The Board will create an Investment Committee to implement this policy.

Spending Policy:

The annual income distribution will be based upon the average of the last three fiscal years ending market values.

Asset Allocation:

Asset allocation decisions are a primary factor in the ultimate determination of long term portfolio performance. Over long time periods, equity tends to outperform fixed income, which tends to outperform cash. Within this context, and with the goal of achieving real growth over and above inflation and spending, the portfolio may be invested in marketable securities, such as domestic and foreign stocks, domestic and foreign bonds including government, corporate, mortgage-backed and asset-backed bonds, preferred stock, convertible issues, derivative contracts and cash equivalents; or in public and private funds investing in similar investments. Non-dollar investments are only permissible through a fund.

The following asset class allocation ranges, based on market value, should allow the investment manager(s) to take advantage of market opportunities, while maintaining a prudent level of risk.

<u>Asset Class</u>	<u>% of Total Portfolio</u>
Fixed Income	15-35
Equity	30-65
Alternative	0-40
Cash and Reserves	0-10

Fixed Income

The minimum overall fixed income portfolio quality will be A. No more than 15% of the fixed income allocation may be invested in below investment grade securities. Non-U.S. bonds are permissible, but through funds only. The overall fixed income portfolio average life should not exceed seven years. Total portfolio duration should normally be in a range of plus or minus 20% of the duration of the Merrill Lynch Domestic 1-10 Year Bond Index.

Equities

The Equity portfolio may be invested in both domestic and international securities. International investments are permissible through funds only. The international allocation may not exceed 40% of the equity allocation.

Within a fund a limited amount of short-selling is permissible and must be identified for the Investment Subcommittee in advance of an investment.

Alternative Investments

Alternative assets are those investments which generally have return characteristics driven by factors different than the primary factors affecting equity and fixed income investments. Recommended alternative investments will, in the judgment of the Investment Committee, provide acceptable risk-adjusted returns and increased diversification. The Investment Committee will be mindful the investment offers, in the Committee's estimation, reasonable liquidity to meet the endowment's needs.

Alternative investments may include, but are not limited to the following:

- real estate
- energy and other commodities
- high yield bonds
- private equity engaged in new venture, leveraged buy-outs and similar strategies
- hedging strategies

The Committee will be mindful of how each investment in the portfolio will be categorized for measuring compliance with these guidelines. The investment's purpose and expected risk and return characteristics will be considered when identifying the category of each investment.

Small deviations from the above asset allocation guidelines caused by stock market or interest rate changes will not be considered as guideline violation; however, the Investment Manager(s) will attempt to return the portfolio to within guidelines within a reasonable period of time consistent with prudent investment management and report on this regularly.

Implementation:

The Investment Committee shall be empowered by the full Board of Trustees to implement the policy. Committee membership may include up to ten members including ex officio members. The Committee's efforts will include the following to provide the due diligence necessary to give the Foundation Board assurance that the policy is consistent with the Foundation's goals and that the risks assumed are reasonable:

Retain an advisor on policy, manager search, selection, evaluation and monitoring of investment managers.

Retain investment managers to manage investments within the policy guidelines.

External investment manager(s) will be retained for management of all or part of the Foundation portfolio. The number of managers and the amount of funds managed by each shall be determined by the Investment Committee, with periodic review and approval by the Board of Trustees. The Committee will set appropriate benchmarks to assist in evaluating each manager's performance.

Retain custodian(s) of the assets.

Investment Policy Review and Performance Evaluation:

At least annually, the Investment Policy will be reviewed with particular emphasis on the success of the rolling 5-year results relative to expectations and to consider whether any new strategies should be considered given market conditions and business requirements.

Performance Benchmarks:

Performance will be measured quarterly and evaluated on a rolling one, three and five-year basis against a composite passive index, an appropriate peer group and inflation plus an appropriate premium for risk.

The Total Fund will be evaluated against:

25% Merrill Lynch Domestic 1-10 Year Bond Index,
40% Vanguard Total Stock Market Index (tracks MSCI-US Broad Market Index)
10% Vanguard Total International Stock Index (tracks MSCI All Country World ex USA Investable Market Index) and
25% CS/Tremont Investable Hedge Fund Index;
Consumer Price Index plus 4%;
Comparable size college and university endowments as reported by NACUBO.

Each Fixed Income Portfolio will be evaluated against:

Merrill Lynch Domestic 1-10 Year Bond Index;
An appropriate peer group, such as the Lipper Intermediate Bond Funds Index.

Each Equity Portfolio will be evaluated against:

The appropriate market index based on market capitalization and style of the manager;
An appropriate peer group based on market capitalization and style of the manager.

Each Alternative Portfolio will be evaluated against:

An appropriate peer group as determined by the Committee.

Risk Benchmarks:

The total endowment fund investment portfolio's volatility, measured as standard deviation of returns, is expected to be lower than a composite of 30% Merrill Lynch Domestic 1-10 Year Bond Index and 56% Vanguard Total Stock Market Index (tracks MSCI-US Broad Market Index) and 14% Vanguard Total International Stock Market Index (tracks MSCI All Country World ex USA Investable Market Index).

Conflict of Interest

All Foundation officers, Investment Committee members and Foundation Board Members have an obligation to conduct the Foundation's business in a manner clearly consistent with the goals and objectives of the University. To avoid conflict of interest between themselves and the Foundation, these individuals (along with Investment Advisors, Investment Managers or mutual

fund advisors) will immediately disclose to the Investment Committee, when this policy or investment decisions are discussed, any actual or perceived conflict of interest that could be reasonably expected to impair, or could be reasonably interpreted as impairing, their ability to render unbiased and objective advice to fulfill their fiduciary responsibility to act in the best interest of the funds.

A conflict of interest exists when an individual (including family members and associates) has an existing or potential material interest which impairs or might appear to impair the individual's independence and objectivity of judgment with respect to his or her responsibilities to the Foundation.

No Committee member who has made or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction unless otherwise determined permissible by the Committee Chair.