

Policy No.: 300-2
Original Release: April 29, 1994
Current Release: February 4, 2011

WESTERN KENTUCKY UNIVERSITY FOUNDATION
POLICY AND PROCEDURES MANUAL

SECTION: Treasury

SUBJECT: Non-Endowed Investment Policy

PURPOSE: To state the general investment policy for non-endowed funds

PROCEDURES: The following policies pertain to the investment of non-endowed funds. These are expendable funds, restricted as to use, available to the University recipient at any time, and must not be exposed to as much market risks as endowed funds.

I. OBJECTIVES

The investment objectives are to preserve principal and to provide a prudent income, consistent with the maintenance of liquidity needs and capital stability.

II. POLICIES

Diversification of assets seeks to ensure that adverse unexpected results from one security or security class will not have a detrimental impact on the entire portfolio of investments. These guidelines include diversification according to issuing entity, security maturity and security size.

Asset classes and approximate ranges, based on fund values, considered appropriate for investment of these assets are as follows:

- A. Investment decisions should generally be based on a long-term investment approach.
- B. The equity allocation target range is 40-60%. Equities, including common stocks and securities convertible into common stocks, and funds investing in equities are expected to provide long-term growth of capital in excess inflation. Equity investments should be diversified among different sectors and/or industries to reduce specific risk from any one stock or industry.
- C. The remaining funds should be invested in bonds, preferred stock and/or cash equivalents. The fixed income allocation target is 40-60%.

Diversification guidelines are based on fund values, considered appropriate for investment of these assets are as follows:

1. Cash equivalent investments should not normally represent a significant portion of the assets. The term cash equivalent investment includes any high quality liquid contractual obligation with a maturity of less than one year. This asset class would include investments such as money market funds, US Treasury bills, bankers acceptances, prime commercial paper and funds that invest in these instruments. A higher percentage of cash equivalent assets may be held from time to time to satisfy University commitments.
2. Fixed income investments, including Treasury, government agency, corporate, mortgage-backed and asset-backed securities and funds investing in these types of securities, are to represent the majority of these assets. The term fixed income investments includes any contractual obligation with maturity of one year or more.

III. PORTFOLIO MANAGEMENT

The Foundation seeks to achieve its investment objectives by following primarily a buy-and-hold investment strategy. Fixed income investment maturities will be staggered over a period of years in order to ensure a proper balance of liquidity and income. These investments will be made in accordance with the following:

- A. Investments shall be limited to investment grade issue or better fixed income securities. Average life should not exceed 6 years. Duration should normally not exceed approximately 4 years. The Merrill Lynch US Corporate and Government 1-5 Year Index is a guide for duration and maturity.
- B. No fixed income investment of any one issuing entity shall be in excess of 10% of the market value of the portfolio, except direct obligations of the U.S. Government or obligations of agencies or instrumentalities of the U.S. Government, upon which there will no limit.
- C. Certificates of deposit shall include only obligations of banks insured by the FDIC or obligations of savings and loan institutions insured by the FSLIC. No single issuing entity shall represent more than \$100,000 or face value.
- D. Money market mutual funds are restricted to funds rated in the highest category by Moody's or Fitch.
- E. Commercial paper purchased shall have a rating of "P-1" by Moody's or "A-1" by Standard and Poor's.
- F. Investment in corporate bonds shall only be in those companies rated "BAA" or better. The average rating of the fixed income portion of the portfolio should be A or better.
- G. There shall be no purchase of direct placements, defined as securities that are placed directly by the issuer to the buyer (rather than through a public

offering) with no SEC registration and such securities bear any restrictions upon their subsequent free sale or contain a requirement that they be put back to the issuer.

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| H. | <u>Equities</u> | <u>% of Asset Class</u> |
| | Domestic | 80-100 |
| | International | 0- 20 |
- I. All investments should be dollar denominated.
- J. Within a fund a limited amount of short-shelling is permissible and must be identified for the Investment Sub Committee in advance of an investment.
- K. Non-dollar investments are only permissible through a fund.

IV. ANNUAL REVIEW

The Foundation Investment Committee will review these policies periodically and make changes as deemed prudent to market conditions and business requirements. Additionally, the Investment Committee will review the investment results/performance of the corporate trustees on at least an annual basis for compliance with these policies.

V. BENCHMARKS

- A. The total portfolio performance, and the effectiveness of the overall strategy, shall be evaluated on a rolling 3 and 5 year basis compared to a blended benchmark of 50% the Merrill Lynch U.S. Government and Corporate 1-5 Year Index 45% Vanguard Total Stock Market Index and 5% Vanguard International Stock Market Index, as well as the Lipper Balanced Fund Index, or similar universes of managed balanced accounts.
- B. Cash equivalents and fixed income portfolio returns will be evaluated compared to the Merrill Lynch U.S. Government and Corporate 1-5 Year Index and the Lipper Short Intermediate Investment Grade Bond Index or similar passive and actively managed fixed income universes.
- C. All funds and managers will be evaluated vs. appropriate peers.