



MIDWESTERN STATE UNIVERSITY

# Operating Policies & Procedures Manual

## University Operating Policy/Procedure (OP)

### OP 14.03: Investment Policy – Endowment Funds

<b>Approval Authority:</b>	President
<b>Policy Type:</b>	University Operating Policy and Procedure
<b>Policy Owner:</b>	Vice President for Administration and Finance
<b>Responsible Office:</b>	Controller's Office
<b>Next Scheduled Review:</b>	06/01/2022

#### A. Purpose

The purpose of this investment policy is to establish cash management and investment guidelines for the investment and protection of university endowment funds in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Texas Property Code Chapter 163. This policy will be reviewed annually by the Board of Regents. Endowment funds include, but are not limited to, gifts of cash, property, stock, and real assets that have been donated to the university to provide funding for scholarships, professorships, and other uses as specified by the donors.

This policy applies to all individual and quasi-endowment funds held by Midwestern State University. Funds functioning as endowments (often referred to as quasi-endowments) are used to account for resources that the governing board, rather than the donor, has determined are to be retained and managed like an endowment. Principal and income of these funds may be utilized at the discretion of the governing board.

The endowment funds may be invested as authorized by this policy and, for short periods of time, be placed in authorized university depositories for the processing of receivables and disbursements.

#### B. Investment Objectives

This policy is designed to fulfill the following objectives:

1. Provide security of invested principal;
2. Provide for appreciation of principal;

3. Provide a continuing and dependable cash payout within market constraints;
4. Provide for planned liquidity for anticipated cash flow purposes;
5. Manage the impact of market risks;
6. Maximize overall total return within the established risk constraints; and
7. Provide for diversification of investment assets.

The long term objective of an endowment is to preserve the intergenerational equity of the endowment while providing an appropriate current spending policy. All endowment funds will be managed by the "prudent person standard."

Endowment funds should be invested to provide funding for scholarships, fellowships, professorships, and other uses as specified by donors or the Board of Regents. Income must be sufficient to provide an adequate cash stream to support the programs for which the endowments were created. In addition, the corpus of the endowment accounts should appreciate over time, exclusive of growth derived from donations, to ensure preservation of purchasing power, and also to satisfy the need for future growth in payouts.

Endowment funds will be invested to meet these objectives, by maximizing total return consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investments shall be diversified to provide reasonable assurance that investment in a single security, a class of securities, or market sector will not have an excessive impact on the funds.

## **C. Investment Fund Administration**

### **1. Investment Officers**

Investment responsibilities are delegated by the Midwestern State University Board of Regents to the president and the vice president for administration and finance. Investment officers, as designated by the board, are responsible for all investment management decisions and activities of the endowment funds.

Each investment officer shall disclose any personal or business relationship with any business organization engaging in an investment transaction with the university. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the university shall file a statement disclosing that relationship. The disclosure shall be filed with the president and the board. No investment officer of the university may accept anything of value in connection with investment transactions. All soft dollar transactions are strictly prohibited.

No investment officer may engage in an investment transaction except as provided under terms of this policy.

## 2. **Investment Committee**

The responsibilities of the Board of Regents Committee with investment oversight are to:

- a. Assist in the development and implementation of investment policies, objectives, and guidelines;
- b. Prepare an asset allocation analysis and recommend an asset allocation strategy with respect to the endowment's objectives;
- c. Review investment managers, including search, selection, and recommendation to the investment officers and/or MSU Board of Regents
- d. Review performance evaluation reports, and
- e. Review contracts and fees for both current and proposed investment managers.

## 3. **Day-to-Day Supervision and Record Keeping**

The controller shall be responsible for the daily supervision and implementation of the investment program under the direction of the Vice President for Administration and Finance.

## **D. Standard of Care**

The "prudent person standard" shall be the standard used in all investment functions and shall be applied in the context of individual transactions as well as management of the overall portfolio. Accordingly, all investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, emphasizing the probable safety of their capital as well as the expected income to be derived.

All investments shall be consistent with the board's approved Investment Policy - Endowment Funds. Investment officers shall not be held personally liable for a specific security's credit risk or market value change as long as actions were in accordance with this policy and procedures, unexpected deviations were reported to the president in a timely manner, and all appropriate actions were taken to control adverse developments.

## **E. Investment Strategies**

The endowment performance objective is to grow the market value of assets net of inflation, spending, and expenses, over a full market cycle (generally defined as a three to five year period) without undue exposure to risk. The endowment is particularly risk-averse to the probability of not meeting the total return goal. Liquidity must be considered and sufficient to meet the spending needs and expenses.

The total return goal can be achieved while assuming acceptable risk levels commensurate with "market volatility." To achieve the total return goal, the endowment's assets will be invested to generate appreciation and/or dividend and interest income.

Because the portfolio is expected to endure into perpetuity, and because inflation is a key component in the performance objective, the long-term risk of not investing in growth securities outweighs the short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities will be used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. Cash is not a strategic asset of the portfolio, but it is a residual to the investment process and used to meet short-term liquidity needs. Other asset classes are included to provide diversification and incremental total return.

The cash payout requirement for endowment funds is significant and continuous. The target distribution will be between four and five percent.

The portfolio shall be diversified to diminish risks associated with particular securities, market sectors, or industries with an excessive impact on the funds.

The university shall pursue an active portfolio management strategy for endowment funds. The investment officers and investment managers will regularly monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions. Quarterly reviews of performance shall be made by the investment officers.

Strategic Asset Allocation Parameters (maximums) are as follows:

- |                             |     |
|-----------------------------|-----|
| 1. U.S. and Global Equities | 70% |
| 2. Alternative Assets*      | 30% |
| 3. Fixed Income and Cash    | 40% |

*\*No more than 20% in any one class of alternative assets. The administration will monitor the level of alternative investments to maintain a target level of 30% or less of all endowment fund investments.*

Texas Education Code 51.0031 allows the Board of Regents to contract with another institution to invest university funds under prudent person investment standards. Any funds managed by another university or university system will follow the asset allocation parameters outlined in the contract.

## Responsible Office

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## Revision History

08/06/2020 MSU Policy 4.196 (Investment Policy – Endowment Funds is adopted by the MSU Board of Regents as MSU Policy and Procedure. 4.196)

08/01/2019

08/09/2018

02/09/2018

08/06/2010     Adopted and approved by the MSU Board of Regents